



Annual Report 2020



Tianjin Capital Environmental Protection Group Company Limited
天津創業環保集團股份有限公司

- I. The board of directors (the “**Board**”), supervisory committee (the “**Supervisory Committee**”), directors (the “**Directors**”), supervisors (the “**Supervisors**”) and senior management of Tianjin Capital Environmental Protection Group Company Limited (the “**Company**”) confirm that the information in this annual report contains no false information, misleading statements or material omissions, and accept joint and several responsibilities for the truthfulness, accuracy and completeness of its contents.
- II. All Directors of the Company attended the Board meetings.
- III. PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have issued standard unqualified audit reports of the Company.
- IV. Liu Yujun, the officer in charge of the Company, Peng Yilin, the officer in charge of the accounting function, and Liu Tao, the officer in charge of the accounting department (the accounting management officer), have declared that they are responsible for the truthfulness, accuracy and completeness of the financial reports contained in the 2020 annual report.
- V. The proposal on profit distribution or transfer of capital reserve fund to share capital for the reporting period as reviewed by the Board

As audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, the actual profit available for distribution to shareholders in this year was RMB4,114,041,385.40, which was calculated based on the net profit attributable to the Company of RMB570,040,574.29 in 2020, less the statutory surplus reserve fund of RMB60,804,977.56 drawn in accordance with the Company Law of the People’s Republic of China and relevant provisions of the Articles of Association, plus the undistributed profit at the beginning of the year of RMB3,757,519,230.68, and less the cash dividend of RMB152,713,442.01 already distributed in 2020 for 2019.

According to the profit distribution policy of the Company, considering that the Company is still in the development stage and that priority shall be given to the capital expenditure arrangement for the development of foreign projects in 2021, we plan to pay a cash dividend of RMB1.20 (tax inclusive) for every 10 shares to all shareholders in 2020, totaling RMB171,267,411.60, with the cash dividend amount accounting for 30.04% of the realizable profit attributable to the Company for distribution in 2020. In 2020, there was no conversion of reserve fund into additional capital stock.

This distribution plan is subject to the approval of the annual general meeting for 2020.

Important

VI. Risk statements for the forward-looking statements

Not applicable

VII. Did the controlling shareholder of the Company and its connected parties misappropriate the Company's funds for non-operating purposes?

No

VIII. Did the Company provide external guarantees in violation of any specified decision-making procedures?

No

IX. Significant risks warning

Not applicable

X. Others

Unless indicated otherwise, financial figures in this annual report are denominated in RMB.

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1. Definitions

I. DEFINITIONS

In this report, unless the context requires otherwise, the following terms shall have the following meanings:

“Group”	Tianjin Capital Environmental Protection Group Company Limited and its subsidiaries
“Subsidiaries”	Subsidiaries of Tianjin Capital Environmental Protection Group Company Limited
“Company”	Tianjin Capital Environmental Protection Group Company Limited
“Tianjin Investment Group”	Tianjin City Infrastructure Construction and Investment Group Co., Ltd.
“TMICL”	Tianjin Municipal Investment Co., Ltd.
“Bohai Chemical”	Tianjin Bohai Chemical Industry (Group) Co., Ltd.
“Tianjin Haihe”	Tianjin Haihe Construction Development and Investment Co., Ltd.
“Jiayuanxing”	Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd.
“Jiayuanxin”	Tianjin Jiayuanxin Innovative Energy Technology Co., Ltd.
“Jiayuanbin”	Tianjin Jiayuanbin Innovative Energy Technology Co., Ltd.
“Jiayuantian”	Tianjin Jiayuantian Innovative Energy Technology Co., Ltd.
“TLP”	Tianjin Lecheng Properties Co., Ltd.
“TYCOM”	Tianjin Yuanyicheng Commercial Operation Management Co., Ltd.
“Water Recycling Company”	Tianjin Water Recycling Co., Ltd.
“Guizhou Company”	Guizhou Capital Water Co., Ltd.
“Baoying Company”	Baoying Capital Water Co., Ltd.
“Qujing Company”	Qujing Capital Water Co., Ltd.
“Fuyang Company”	Fuyang Capital Water Co., Ltd.
“Hangzhou Company”	Hangzhou Tianchuang Capital Water Co., Ltd.

“Hong Kong Company”	Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.
“Wendeng Company”	Wendeng Capital Water Co., Ltd.
“Jinghai Company”	Tianjin Jinghai Capital Water Co., Ltd.
“Xi’an Company”	Xi’an Capital Water Co., Ltd.
“Caring Company”	Tianjin Caring Technology Development Co., Ltd.
“Anguo Company”	Anguo Capital Water Co., Ltd.
“Wuhan Company”	Wuhan Tianchuang Capital Environmental Protection Co., Ltd.
“Jinning Capital Company”	Tianjin Jinning Capital Water Co., Ltd.
“Shandong Company”	Shandong Capital Environmental Protection Technology Co., Ltd.
“Karamay Company”	Karamay Tianchuang Capital Water Co., Ltd.
“Yingshang Company”	Yingshang Capital Water Co., Ltd.
“Changsha Tianchuang Water”	Changsha Tianchuang Capital Water Co., Ltd.
“Changsha Tianchuang Environmental Protection”	Changsha Tianchuang Environmental Protection Co., Ltd.
“Linxia Company”	Linxia Capital Water Co., Ltd.
“Anhui Company”	Anhui Capital Water Co., Ltd.
“Hefei Company”	Hefei Capital Water Co., Ltd.
“Dalian Chunliuhe Company”	Dalian Oriental Chunliuhe Water Quality Purification Co., Ltd.
“Bayannur Company”	Inner Mongolia Bayannur Capital Water Co., Ltd.
“Honghu Tianchuang”	Honghu Tianchuang Water Co., Ltd.

1. Definitions

“Qudong Company”	Tianjin Qudong Cultural Media Co., Ltd.
“CSRC”	the China Securities Regulatory Commission
“Jieshou Company”	Jieshou Capital Water Co., Ltd.
“Chibi Company”	Chibi Capital Water Co., Ltd.
“Shibing Company”	Shibinggui Capital Water Co., Ltd.
“Deqing Company”	Deqing Capital Water Co., Ltd.
“GJTC”	Hebei Guojin Tianchuang Sewage Treatment Co., Ltd.* (河北國津天創污水處理有限責任公司)
“Capital Materials Company”	Tianjin Capital New Materials Co., Ltd. (天津創業建材有限公司)
“Hanshou Company”	Hanshou Capital Water Co., Ltd. (漢壽天創水務有限公司)
“Jiuquan Company”	Jiuquan Capital Water Co., Ltd. (酒泉創業水務有限公司)
“Guokong Jincheng”	Hebei Guokong Jincheng Environmental Control Co., Ltd.* (河北國控津城環境治理有限責任公司)
“Compro Company”	Gaoyou Compro Environmental Resources Co., Ltd.* (高郵康博環境資源有限公司)
“Yonghui Company”	Jiangsu Yonghui Resources Utilization Co., Ltd. (江蘇永輝資源利用有限公司)
“Dongying Company”	Dongying Tianchi Environmental Technology Co., Ltd.* (東營天馳環保科技有限公司)
“International Machinery Company”	Tianjin International Machinery Co., Ltd.
“Sino Company”	Sino Legend Industries Limited
“Hexi Court”	People’s Court of Hexi District, Tianjin City

2. Company Profile and Major Financial Indicators

I. INFORMATION OF THE COMPANY

Chinese name of the Company	天津創業環保集團股份有限公司
Abbreviation of the Chinese name of the Company	創業環保
English name of the Company	Tianjin Capital Environmental Protection Group Company Limited
Abbreviation of the English name of the Company	TCEPC
Legal representative of the Company	Liu Yujun

II. CONTACT PERSON AND METHOD

	<u>Company Secretary to the Board</u>	<u>Company Secretary in Hong Kong</u>	<u>Securities Affairs Representative</u>
Name	Niu Bo	Mona Y.Y. Cho	Guo Fengxian
Correspondence address	TCEP Building 76 Weijin South Road Nankai District, Tianjin	22/F, Worldwide House, Central, Hong Kong	TCEP Building 76 Weijin South Road Nankai District, Tianjin
Telephone number	86-22-23930128	852-21629620	86-22-23930128
Facsimile number	86-22-23930126	852-25010028	86-22-23930126
Email address	niu_bo@tjcep.com	cosec@tjcep.com	guo_fx@tjcep.com

III. COMPANY PROFILE

Registered address	12/F, TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC
Postal code of the registered address	300381
Office address	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC
Postal code of the office address	300381
Website	http://www.tjcep.com
Email address	tjcep@tjcep.com

2. Company Profile and Major Financial Indicators

IV. PLACES WHERE INFORMATION IS DISCLOSED AND AVAILABLE FOR INSPECTION

Name of the media designated for the disclosure of information	Shanghai Securities News
Website designated by China Securities Regulatory Committee (“CSRC”) for the disclosure of annual report	www.sse.com.cn
Place where the annual report is available for inspection	Office of Corporate Governance, 18/F, TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC

V. PROFILE OF THE SHARES OF THE COMPANY

Shares	Stock Exchange for listing shares	Stock short name	Stock code	Stock short name before its change
A Shares	Shanghai Stock Exchange (the “SSE”)	創業環保	600874	渤海化工
H Shares	The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)	Tianjin Capital	01065	Tianjin Bohai

VI. OTHER RELEVANT INFORMATION

Certified public accountants engaged by the Company (PRC)	Name	PricewaterhouseCoopers Zhong Tian LLP
	Office address	11/F, PricewaterhouseCoopers Center, 2 Leading Enterprise Square, 202 Hu Bin Road, Huangpu District, Shanghai, the PRC
	Name of Signing Accountant	Li Jun Wang Yan
Certified public accountants engaged by the Company (Hongkong, PRC)	Name	Pricewaterhousecoopers
	Office address	22/F, Prince’s Building, Central, Hong Kong
	Name of Signing Accountant	Chong Heng Hon

VII. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE PREVIOUS THREE YEARS

(I) Major accounting data

Unit: 0'000 Currency: RMB

Major accounting data	2020	2019	Increase/Decrease for the period as compared to the same period last year (%)	2018
Operating revenue	336,387.4	285,145.3	17.97	244,751.5
Net profit attributable to the shareholders of the Company	57,003.9	50,710.7	12.41	50,116.8
Net profit attributable to the shareholders of the Company after deduction of extraordinary profit and loss	49,316.0	38,445.2	28.28	44,560.6
Net cash flow from operating activities	52,397.9	83,928.6	-37.57	69,264.6
			Increase/Decrease as at the end of the period as compared to the end of the same period last year (%)	
	As at the end of 2020	As at the end of 2019		As at the end of 2018
Net assets attributable to the shareholders of the Company	659,135.1	617,402.5	6.76	581,820.3
Total assets	1,880,296.9	1,799,080.7	4.51	1,568,744.8

(II) Major financial indicators

Currency: RMB

Major financial indicators	2020	2019	Increase/Decrease for the period as compared to the same period last year (%)	2018
Basic earnings per share (RMB/share)	0.40	0.36	11.11	0.35
Diluted earnings per share (RMB/share)	0.40	0.36	11.11	0.35
Basic earnings per share after deduction of extraordinary profit and loss (RMB/share)	0.35	0.27	29.63	0.31
Weighted average return on net assets ratio (%)	8.95	8.48	0.47	9.05
Weighted average return on net assets ratio after deduction of extraordinary profit and loss (%)	7.74	6.43	1.31	8.05

2. Company Profile and Major Financial Indicators

VIII. DIFFERENCES IN ACCOUNTING DATA UNDER THE DOMESTIC AND OVERSEAS ACCOUNTING STANDARDS

- (I) Differences between net profit and net assets attributable to the Company's Shareholders as disclosed in the financial report in accordance with the international accounting standards and that in accordance with the accounting standards of the PRC simultaneously

Not applicable

- (II) Differences between net profit and net assets attributable to the Company's Shareholders as disclosed in the financial report in accordance with the overseas accounting standards and that in accordance with the accounting standards of the PRC simultaneously

Not applicable

- (III) Explanation on differences in domestic and overseas accounting standards

Not applicable

IX. EXTRAORDINARY PROFIT AND LOSS ITEMS AND AMOUNTS

Unit: 0'000 Currency: RMB

Extraordinary Profit and Loss Items	Amount in 2020	Amount in 2019	Amount in 2018
Profit/loss from disposal of non-current assets	2.1	70.4	-90.0
Government grants recognized in current profit and loss, except for those closely related to normal business operation, in compliance with requirements of national policies, and settled in certain amount which are constantly granted by government	9,657.7	10,810.3	7,848.1
Other non-operating income and expenses save for the above items	-470.2	-152.0	-180.9
Profit from disposal of other current assets	0	4,870.3	0
Reversal of provision for impairment loss of account receivables subject to separate impairment testing	43.7	0	0
Effect on minority interests	5.2	-183.9	-126.7
Effect on income tax	-1,550.6	-3,149.6	-1,894.3
Total	<u>7,687.9</u>	<u>12,265.5</u>	<u>5,556.2</u>

X. ITEMS MEASURED BY FAIR VALUE

Not applicable

XI. PREPARATION BASED ON HONG KONG FINANCIAL REPORTING STANDARDS

Results

Unit: 0'000 Currency: RMB

	2020	For the year ended 31 December			2016
		2019	2018	2017	
Turnover	<u>336,387</u>	<u>285,145</u>	<u>244,752</u>	<u>193,193</u>	<u>177,381</u>
Profit before taxation	<u>71,818</u>	<u>62,955</u>	<u>69,484</u>	<u>71,879</u>	<u>62,223</u>
Taxation	<u>(11,205)</u>	<u>(10,059)</u>	<u>(16,806)</u>	<u>(19,959)</u>	<u>(15,432)</u>
Profit after taxation	<u>60,614</u>	<u>52,896</u>	<u>52,678</u>	<u>51,920</u>	<u>46,791</u>
Non-controlling interests	<u>(3,610)</u>	<u>(2,185)</u>	<u>(2,561)</u>	<u>(1,094)</u>	<u>(2,474)</u>
Profit attributable to the shareholders of the Company	<u>57,004</u>	<u>50,711</u>	<u>50,117</u>	<u>50,825</u>	<u>44,317</u>
Dividend	<u>15,271</u>	<u>15,129</u>	<u>-</u>	<u>-</u>	<u>13,559</u>

Note: The results for each of the five years ended 31 December 2020 have been extracted from the previous annual reports and the audited consolidated income statements as set out in this annual report.

2. Company Profile and Major Financial Indicators

XI. PREPARATION BASED ON HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Assets and Liabilities

Unit: 0'000 Currency: RMB

	As at 31 December				
	2020	2019	2018	2017	2016
Property machinery and equipment, Investment properties and land use rights	81,935	80,101	64,199	52,803	53,046
Right-of-use assets	7,761	5,808	–	–	–
Intangible assets	1,192,221	1,170,136	1,031,447	686,970	621,900
Associated company	19,500	19,500	19,500	–	–
Financial asset at fair value through other comprehensive income	200	200	200	–	–
Available-for-sale financial assets	–	–	–	200	200
Long-term receivables	164,740	23,645	25,369	29,496	30,915
Deferred income tax assets	1,297	421	–	–	–
Other non-current assets	33,097	19,592	10,918	59,843	18,774
Net current assets	<u>27,858</u>	<u>124,790</u>	<u>150,129</u>	<u>98,631</u>	<u>159,479</u>
	1,528,609	1,444,193	1,301,762	927,943	884,314
Non-controlling interests	99,029	96,816	79,676	29,674	25,944
Long-term liabilities	<u>770,445</u>	<u>729,975</u>	<u>640,266</u>	<u>386,564</u>	<u>383,932</u>
Net assets	<u><u>659,135</u></u>	<u><u>617,402</u></u>	<u><u>581,820</u></u>	<u><u>511,704</u></u>	<u><u>474,438</u></u>

3. Company Business Overview

I. EXPLANATION OF THE PRINCIPAL BUSINESS OF THE COMPANY, ITS BUSINESS MODEL, AND THE INDUSTRY SITUATION DURING THE REPORTING PERIOD

(I) Principal Business of the Company and its Business Model

In line with its strategic objective of being a comprehensive environmental service provider, during the reporting period, the principal businesses of the Company include basic business and strategic new business. There was no material change in the business scope and business model of the Company's principal businesses as compared with the previous year.

1. Basic business refers to the business of municipal sewage treatment, water supply and water recycling. The basic business is the main business of the Company, which is the main source of revenue and profit.

During the reporting period, the Company focused on strengthening and improving the operation quality of the existing water utilities projects, with no significant change in the business scale as compared with the beginning of the reporting period. As of the end of the reporting period, the total capacity of the equity-type water utilities business of the Company amounted to approximately 5.525 million m³ per day, among which the sewage treatment capacity, water supply capacity (including tap water and industrial water supply capacity) and recycled water capacity under the PPP model was approximately 4.79 million m³ per day, 315,000 m³ per day and 420,000 m³ per day, respectively, and the pipe network length under the integrated plant network was 1,007 km. The above projects are distributed in 15 provinces, municipalities and autonomous region and the sewage treatment capacity under the entrusted operation model was approximately 586,000 m³ per day.

Based on BOT, TOT and PPP models in sewage treatment and water supply, the Company mainly obtained sales revenue from the production and sale of recycled water and the income from provision of recycled water pipeline connection services on recycled water business, which have not changed significantly compared with the previous year.

2. Strategic new business includes new energy heating and cooling, solid waste treatment, sludge treatment, photovoltaic power generation, transformation of achievements in technology research, etc. In respect of profitability, economic added value, and payback period, it can form a good complement with the basic business and optimize the overall business structure.

- (1) The service areas of new energy cooling and heating supply business amounted to 2 million m², which was mainly operated in Tianjin under BOT model, remaining unchanged as compared with that of previous year.

3. Company Business Overview

- (2) For hazardous wastes business, during the reporting period, the Company had an additional “comprehensive material ecology disposal center project” located in an agricultural high-tech industry demonstration zone in the Yellow River Delta with a total planned storage capacity of 600,000 m³, and two hazardous wastes disposal projects through acquisition in environmental protection industry park of Longqiu Township, Gaoyou City, Jiangsu Province with a total annual capacity of 60,000 tons/year. As of the end of the reporting period, the Company’s hazardous wastes business include four projects with the disposal capacity of 128,000 tons/year, and a storage and transit project with the capacity of 20,000 tons/year and a waste landfill project with the aggregate storage of 600,000 m³ with the comprehensive waste utilization capacity of 73,000 tons/year, which were mainly distributed in Shandong Province and Jiangsu Province. Based on the premise of obtaining the hazardous waste operation permit, the Company chose waste-producing units to offer hazardous waste disposal services under the guide price of local governments and charged for hazardous waste disposal service by adopting a fully market-oriented operation mode.
- (3) During the reporting period, the Company had an additional distributed photovoltaic power generation project with the planned annual electricity generation of 2.9216 million kWh which was mainly distributed in Tianjin and Dalian and managed by adopting a fully market-oriented operation mode.
- (4) With respect to the sludge treatment business, during the reporting period, the Company mainly focused on improving the operation quality of existing projects. Its total capacity on sludge treatment was 1,560 tons/day, which remains unchanged as compared with that of previous year and mainly distributed in Tianjin and Jiuquan of Gansu. The Jiuquan Project is operated under BOT model while the sludge treatment project in Tianjin is operated under the entrusted operation model.
- (5) The transformation of technical research achievements is mainly the commercialization of the Company’s patented “CYF whole-process deodorant technology”, which is undertaken by Caring Company, a majority-controlled subsidiary of the Company. During the reporting period, the Company organized nearly 50 projects for technical cooperation such as program preparation, and signed 11 project contracts. By the end of the reporting period, the application of this technology has covered nearly two-thirds of the country, and more than 70 projects have been successfully applied and implemented, covering 18 provinces, municipalities and autonomous regions. In the process of business promotion, Caring Company closely followed the new trend brought about by the change of industrial policy, and enriched the diversity of the odour treatment technology in the urban sewage treatment industry. Based on its own technical advantages in strain screening and culture, the deodorization technology has been continuously upgraded to the “whole-process deodorization + technology”, further promoting the development of commercialization in the future.

(II) Explanation of Industry Situation

1. Driven and guided by the national policies, the demand for the efficiency-oriented systematic governance of water environment has been increased, and the unleashing of market of systematic governance of water environment has been accelerated; the integrated plant network river, integrated water supply and drainage, integrated plant network and other comprehensive environmental governance projects has been increased gradually, so the Company will embrace opportunities in demand on the upgrades and expansion of drainage governance, pipe network market, and urban sewage treatment as well as the wastewater reclamation.

In February 2020, “Opinion on Doing a Better Job in the Key Work Concerning Agriculture, Rural Areas and Farmers to Achieve Moderate Prosperity in All Respects on Schedule” was issued by the State Council, pursuant to the spirit of which, environmental governance in rural area will be accelerated, which will release numerous market opportunities in water supply pipe network construction, water supply management informatization and testing in rural area, integrated urban-rural water supply and other related field in the future.

In January 2021, 10 government departments, including the National Development and Reform Commission, jointly announced the “Guiding opinions on promoting the utilization of wastewater resource”, which outlined the objective of “by 2025, the nationwide wastewater collection performance will be improved significantly. The sewage treatment capability of counties and urban areas will basically meet the needs of their local economic and social development. The sewage treatment capability in the water environmentally sensitive areas will basically undertake the upgrade of discharge standard. The utilization rate of recycled water in the cities with water shortage at prefecture-level or above will reach 25% or above, and those in Beijing-Tianjin-Hebei region will reach 35% or above”, and meanwhile pointed out that the key areas of wastewater resource utilization in China consist of urban domestic sewage, industrial sewage and agricultural and rural sewage. In this context, the wastewater reclamation market will be released rapidly, and meanwhile, industrial water recycling, distributed wastewater treatment, membrane treatment, wetland purification will bring new opportunities.

2. The demands on effect-oriented wastewater treatment and increasing emphasis on quality and efficiency improvement of wastewater projects: the PPP projects have been further standardized and the whole-cycle performance management of projects has been strengthened; more efforts have been reinforced to environmental monitoring, and the quality and efficiency of water utilities projects are required to be improved, which pose an increasing challenges on integrated operation capacity on water utilities companies.

3. Company Business Overview

II. EXPLANATION OF THE SIGNIFICANT CHANGES IN THE COMPANY'S MAJOR ASSETS DURING THE REPORTING PERIOD

Not applicable

III. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

After the development in 2020, the Company further consolidated its strengths and enhanced its overall competitiveness.

(1) Our ability to operate in a safe, stable, up-to-standard, and efficient manner

Since the construction and operation of Tianjin Jizhuangzi Sewage Treatment Plant, the Company has witnessed the entire process that the water quality standard raised from class II to class IV, mastered all major processes of municipal sewage treatment and their combinations, and possesses Grade A qualifications for “operating comprehensive environmental governance facilities” for municipal and industrial sewage and for “operating urban centralized sewage treatment facilities”. After the appraising of operation through comparison in the national water industry, many of the Company’s projects have been awarded the titles of “Top Ten Operating Units”, “National Top Ten Sewage Treatment Plants”, and “Advanced Unit of Energy Conservation and Emission Reduction”. The Company has operated 58 water utilities projects across 15 provinces, cities, and autonomous regions of the Country. The Company has devoted intensive efforts in the field of sewage treatment for many years and accumulated substantial experience in operation and management. It has cultivated a great number of professionals in sewage treatment, and explored and established the mechanism for operating and managing sewage treatment plants and the mechanism for nurturing plant directors, constantly trained persons in charge of operation for projects nationwide, and built an operation team in the local area, to form a sound echelon building system.

During the reporting period, leveraging upon the big data, cloud computing and other technologies, the Company established the big data operation platform to facilitate the launching of smart water utilities management system, striving to achieve the high-quality development in operation and management.

(2) **Our practical, leading, systematic, and sustainable research and development capabilities**

The Company established an R&D center and a post-doctoral workstation as early as 2004, which is also an experimental base for the National Engineering Research Center for Urban Water and Wastewater. The mechanism for industry-university-research cooperation between the Company and a number of research institutes and universities has been established, which has incubated Caring Company, a platform company for the transformation of achievements in technology research, currently becoming a national high-tech subsidiary of the Company. To further highlight the leading role of science and technology, the Company rebuilds the R&D base and restructures the R&D center; promotes the extensive application of scientific and technological innovation in various business areas; the Company conducts research on the applied technologies of and provides technical support for improving the quality and efficiency of traditional municipal sewage treatment, solid waste treatment, new process and product development, turning garbage into resources, river and soil restoration, new energy utilization, smart water management, and sponge city.

During the reporting period, the Company further optimized scientific R&D system, strengthened R&D incentives and carried out various R&D activities. It obtained 13 new patents, including 1 invention patent obtained through change of ownership and 12 patents obtained through independent R&D (including 3 invention patents and 9 utility model patents), obtained 7 new software copyrights, carried on 4 national scientific research projects, 3 municipal scientific research projects, 59 corporate scientific research projects, organized the preparation and revision of 2 industrial standards on the Reuse of Urban Recycling Water – Water Quality Standard for Industrial Uses, further enhancing the Company's scientific R&D capabilities.

(3) **Our professional, dedicated, cooperative, and innovative staff team**

During the reporting period, the Group had a total of 2,034 employees, among which 21 of them have a high professional title, 238 of them have a senior professional title, and 337 of them have a medium-grade professional title. The professional fields cover environmental engineering, water supply and drainage, electrical engineering, mechanical equipment, economics, and management.

3. Company Business Overview

Based on the objectives of consolidating basic business while developing strategic new business, the Company implements linear management on operation, construction and market development, built professional teams for technology R&D, market development, engineering construction, and operation management, and nurtures and provides operational management personnel for new development projects nationwide by relying on the water plants of the Company in Tianjin. The subordinate companies implement regional management for the water utilities business, coordinate regional operation and construction and develop surrounding markets, and carry out professional management of strategic emerging businesses including hazardous waste, new energy, and transformation of achievements in technology research, in an effort to nurture professional management and operation teams, and help the teams grow stronger and better.

The Group emphasizes and encourages innovation. For many years, it has been conducting management innovation activities. In 2020, the Company has nearly 20 achievements in management innovation, two of which participated in the selection of Tianjin Innovation Achievements in Modernization.

(4) Our corporate reputation for being trustworthy, responsible, standardized, and reliable

In the past 20 years since listing, the Company has provided Tianjin and other parts of the country with safe, stable, up-to-standard, and efficient water operation services by drawing on its professional operation capabilities, and assuming social responsibilities as state-owned enterprise, and conducting standardized operations as listed company. Irrespective of the guarantee of daily operation or the cooperation with the construction department to complete emergency construction tasks, dealing of public emergencies, and the assistance to government regulators to solve municipal and livelihood issues, the Company will do everything within its capacity to shoulder its responsibilities, giving consideration to both economic and social benefits. The Company has been acknowledged and praised by relevant national ministries and commissions and local governments for many times.

Adhering to the development strategy of pursuing progress while ensuring stability, the Company continues to optimize the market development system and plan the market development layout as a whole. For years, the Company has maintained growth in the water utilities business and relevant environmental protection businesses. The Company has been awarded the title of “Top Ten Influential Enterprises in China’s Water Utilities Industry”, establishing a good image and brand reputation for 15 consecutive years since 2005.

4. Management Discussion and Analysis

I. OPERATION DISCUSSION AND ANALYSIS

1. Analysis of the overall operation condition during the reporting period

In 2020, the sudden outbreak of COVID-19 pandemic posed a great impact on the social economy and people's life, which also put enormous demands on the enterprises in the sewage treatment industry concerning people's well-being. With a high sense of responsibility and mission, the Company made decisions decisively, deployed reasonably and organized orderly to push forward with and implemented epidemic prevention and control and economic work at the same time, and withstood downward pressures and developed innovative solutions constantly. The Company achieved good results in the difficult situation according to the operational plans and strategies for 2020 as formulated by the Board by improving economic efficiency as the core, strengthening the operation and the construction strength as the foundation, enhancing the operation management and maximizing efforts in market exploration and innovation on management.

(1) Optimize operation management to ensure the operational safety of projects during the pandemic while improving the quality of operation management

Confronted with the challenges brought by the pandemic, the Company conquered difficulties and discharged its social responsibilities by ensuring the normal operation of the sewage, water supply, recycled water, new energy cooling and heating supply projects while proactively implementing the pandemic prevention work deployment of the government. Meanwhile, on the scientific research and development front, the Company organized industry experts to systematically analyze the infection source, the transmission pathogenesis and the feature and pattern of viruses in sewage and put forward to the specific views on prevention measures and operation. On the operation emergency management front, the Company formulated the "Guide on Sewage Treatment Work in the Pandemic Prevention and Control" and the relevant proposals, timely adjusted the processing process to ensure the operational safety of projects.

Leveraging upon the big data, cloud computing and other technologies, the Company established the big data operation platform. The Company used information technology in achieving the online monitoring on the whole process of production and intelligent online analysis of production data for basic units, so as to offer command and dispatching platforms of the Group with real-time data, striving to realize the intelligent management and drive high-quality development in operation. As "TJCEP big data operating and dispatching management platform for Sewage Treatment Plant" was awarded the computer software copyright certificate by the National Copyright Administration of the PRC, the digital core business has achieved cost reduction and efficiency enhancement, which assured the condition of promotion.

4. Management Discussion and Analysis

(2) Vigorously develop strategic new business while consolidating the basic business

In respect of basic business, the Company took consolidating existing water projects as the primary business and increased its business scale slightly. The Company organized upgrade and renovation of sewage treatment plants in Beishiqiao* (北石橋) and Dengjia Village* (鄧家村) by Xi'an Company, won the bid for newly-built and upgrade and supporting pipeline network (phase II) PPP project of Honghu township sewage water processing plant, and successfully completed the relocation and construction of Dongjiao Sewage Water Treatment Plant and Recycled Water Plant Project with an aggregate capacity of 600,000 tons/day, proactively acting in line with project agreements. On 31 July 2020, the Company executed the “Supplemental Agreement to the Licensed Operation of the Four Sewage Water Treatment Plants in Tianjin Central Area (III)”, and determined the new unit price of comprehensive service for sewage treatment to ensure the profitability of its projects. Leveraging upon the operation strengths, the Company took its existing water project as the support to develop the landfill leachate treatment, device commissioning and installation and other technical services related to water projects vigorously, striving to optimize the business structure.

In respect of new business expansion, the Company secured the distributed photovoltaic power generation projects and currently the photovoltaic power generation projects of Jingu Recycled Water Factory and Dalian Chunliu River Sewage Factory are at the stage of trial operation. The Tancheng Industrial Wastes Treatment Center Projects obtained the hazardous waste operation permit in April 2020 and entered into the full production and operation stage at the end of July 2020, whereby greatly promoting the ecological environment governance in Linyi and other urban areas within the province. Leveraging its second-generation deodorization technology, Caring Company entered into 10 project contracts with the sewage factories in Keriya, Xinjiang; and secured the “comprehensive material ecology disposal center project” located in an agricultural high-tech industry demonstration zone in the Yellow River Delta.

To improve the regional layout on hazardous waste business and build up full-industry chain and regional integrated service capacity, the Company, by way of merger and acquisition, acquired the entire equity interest of Compro Company and Yonghui Company, so as to improve the market competitiveness of hazardous waste business while enhancing business capacity through accumulating working experience for future business expansion by merger and acquisition.

(3) Further deepen market-oriented reform and improve the incentive mechanism.

During the reporting period, following the completion of the construction of the professional manager management system, the Group completed the appointment on middle-level management and three-system reform of subsidiaries from the group level step by step, setting up the market-oriented remuneration and assessment system and creating diversified motivation methods within the Group.

To fully mobilize the enthusiasm, sense of responsibility and sense of mission of the senior management and other key personnel in the core technology of the Company, and effectively align the interests of Shareholders, the Company and individual operators, making all parties attend to and jointly strive for the long-term development of the Company. The Company implemented the share incentive scheme during the reporting period, which has been approved at shareholders' meeting of the Company. There are 155 participants for the Scheme, including the directors, senior executives (excluding the independent directors, and external directors and supervisors), other members of the leadership team and core technology, management, business and skill backbones of the Company. The incentive method is to grant share options to the participants, and the source of shares in the Scheme is the A-share ordinary shares issued by the Company to the participants. The number of share options proposed to be granted to the participants under the scheme is 14,270,000 and the corresponding number of underlying shares is 14,270,000 A shares. The exercise price is RMB6.98 per share.

To fully mobilize the initiative and creativity of the key personnel in technology and operation, Caring Company, the controlling subsidiary of the Company, launched a project dividend distribution incentive scheme, whereby the project to be declared for dividend distribution shall be the scientific and technological achievements transformation project satisfying the requirements in industrialized mode, source and phase simultaneously. The participants consisted of the project R&D leaders, project R&D design backbones, project achievements transformation leaders and project achievements transformation backbones who will provide driving forces for the future scientific and technological achievements transformation.

(4) On 7 September 2020, the proposal to issue A shares to specific targets at the price of RMB5.56 per share was approved at the general meeting of the Company. The gross proceeds to be raised will be not more than RMB1.8 billion, which are proposed to be used in repayment of interest-bearing liabilities and supplement the working capital. The effectiveness of the issuance plan shall be subject to the approval of the CSRC.

4. Management Discussion and Analysis

II. OPERATION SITUATION OF THE PRINCIPAL BUSINESS DURING THE REPORTING PERIOD

1. Analysis of the principal business

In 2020, the Group's overall operation remained stable, with no significant fluctuations as compared to the previous year. The Group's principal business segment did not change significantly as compared to the previous year, and the Group was still engaged in the sewage treatment business, recycled water business, tap water supply, new energy heating and cooling supply business, toll collection business, and transformation of achievements in technology research and hazardous waste business, which became the main sources of the Group's earnings in 2020. In recent years, the hazardous waste business in the Company has developed rapidly, which began to record revenue from 2020. However, as all the projects were at their early stage of construction and operation, the contribution to the revenue of the Company was not clear. Although the revenue from technical services increased significantly as compared to the previous year due to business enlargement, it still accounted for a relatively low proportion to the overall revenue of the Group.

2. Analysis of the overall results of operations during the reporting period

In 2020, the Group recorded operating revenue of RMB3,363.874 million, representing an increase of 17.97% as compared to the previous year, which was mainly attributable to the increase in revenue from the sewage treatment business. The sewage treatment volume of existing projects and new operating projects of the Company increased approximately 10% as compared with the same period last year, and the new plants at Dongjiao of Tianjin under upgrading and expansion were put into operation in the second half of the year, in which a new unit price on sewage treatment service was executed. The hazardous waste business was started to be operated in the fourth quarter of 2019, which recorded a significant increase in revenue in 2020 as a result of growth in treatment volume as compared to the previous year; the operating cost was RMB2,233.128 million, representing an increase of 12.53% as compared to the previous year, mainly due to the increase of business volume and the improvement of effluent water quality standards; the net profit attributable to the Company was RMB570.039 million, representing an increase of 12.41% over last year, mainly due to the increase in operating profit as a result of growth in business volume of the Company.

(I) ANALYSIS OF THE PRINCIPAL BUSINESS

Analysis of changes in relevant items in income statement and cash flow statement

Unit: 0'000 Currency: RMB

Item	Amount for the current period	Amount for the same period of last year	Percentage change (%)
Operating revenue	336,387.4	285,145.3	17.97%
Operating cost	-223,312.8	-198,453.7	12.53%
Distribution expenses	-1,587.9	-707.5	124.44%
Administrative expenses	-17,807.8	-16,866.1	5.58%
Impairment loss of financial assets	-8,833.2	-3,138.3	181.46%
Other(losses)/gains-net	-481.4	4,787.5	-110.06%
Finance costs-net	-23,910.0	-19,939.6	19.91%
Non-controlling interests	3,609.9	2,185.5	65.18%
Net cash flows from operating activities	52,397.9	83,928.6	-37.57%
Net cash flows from investing activities	-153,191.5	-195,348.8	-21.58%
Net cash flows from financing activities	59,429.2	137,196.0	-56.68%

- Reasons for the change in operating revenue: mainly due to the increase in the volume of sewage treatment, recycled water and hazardous waste operations, resulting in a corresponding increase in revenue.
- Reasons for the change in operating cost: mainly due to the increase of business volume and the improvement of effluent water quality standards, and the increase of operating costs.
- Reasons for change in distribution expenses: the Company's hazardous waste handling project was put into operation, and the selling expenses increased.
- Reasons for changes in administrative expenses: mainly due to the increase of personnel costs and intermediary service fees compared with the same period last year.
- Reasons for the change in impairment loss of financial assets: mainly due to the provision for credit impairment loss of accounts receivable.

4. Management Discussion and Analysis

6. Reasons for other (losses)/gains-net: mainly due to the gains from disposal of other current assets in the last year and impairment allowance of the other current assets in this year.
7. Reasons for the change of finance costs-net: mainly due to the expensing of interest expense after the sewage project is put into operation, and the increase of financial expense.
8. Reasons for the change in non-controlling interests: mainly due to the increased net profit of the Company's non-wholly-owned subsidiaries in the current period.
9. Reasons for the change in net cash flow generated from operating activities: the main reason is that the operating receivables such as sewage treatment service fees collected in the current period were lower than that of the same period last year.
10. Reasons for the change in net cash flow generated from investing activities: the main reason is that the investment expenditures of engineering projects of the Company in the current period were lower than that of the same period last year.
11. Reasons for the change in net cash flow generated from financing activities: the main reason is that the financing liabilities repaid by the Company in the current period were higher than that of the same period last year.

1. Analysis of income and costs

During the reporting period, the Company continued to strengthen project operation and management. On one hand, we improved the quality of operations to meet the increasingly stringent regulatory requirements, and controlled operating costs through fine management; on the other hand, we maintained the project agreement, and adjusted the unit price of sewage treatment service fee in a timely manner to ensure the project income.

(1). Major business breakdown by industry, product, and region

Unit: 0'000 Currency: RMB

Principal business by industry

Industry	Operating revenue	Operating cost	Gross profit margin (%)	Increase/decrease in operating revenue compared with last year (%)	Increase/decrease in operating cost compared with last year (%)	Increase/decrease in gross profit margin compared with last year (%)
Sewage treatment	239,249	155,408	35.04	18.15	12.02	3.55
Recycled water business	31,711	22,652	28.57	11.73	7.17	3.05
Road toll business	6,260	712	88.63	0.48	0.00	0.06
Tap water supply business	9,930	8,075	18.68	-5.76	5.53	8.71
Cooling and heating business	10,061	6,710	33.31	-0.76	-4.32	2.49
Transformation of achievements in technology research	4,323	1,483	65.70	-2.61	-23.44	9.34
Others (Note 1)	11,179	7,502	32.89	178.92	167.93	2.75

Principal business by region

Region	Operating revenue	Operating cost	Gross profit margin (%)	Increase/decrease in operating revenue compared with last year (%)	Increase/decrease in operating cost compared with last year (%)	Increase/decrease in gross profit margin compared with last year (%)
Beijing-Tianjin-Hebei Region (Note 2)	179,312	111,541	37.80	11.60	8.25	1.93
Southwest Region (Note 3)	15,299	11,732	23.32	1.16	5.80	-3.35
Northwest Region (Note 4)	36,492	25,948	28.89	27.10	17.34	5.91
Central China Region (Note 5)	35,147	24,000	31.72	48.22	40.44	3.79
Eastern China Region (Note 6)	31,838	19,904	37.48	5.44	-7.62	8.83
Northeast Region (Note 7)	14,625	9,417	35.61	86.88	84.72	0.75

4. Management Discussion and Analysis

Note 1: The increase was due to the increased scale and treatment volume of the hazardous waste business this year.

Note 2: The Beijing-Tianjin-Hebei Region includes the four sewage treatment plants in Dongjiao, Xianyang Road, Jingu and Beicang of Tianjin, as well as Anguo Company, Jinghai Company, Jinning Capital Company, Water Recycling Company, Caring Company, Jiayuanxing and Capital Materials Company. The increase was due to the increased business volume as compared to the same period last year.

Note 3: The Southwest Region includes Guizhou Company and Qujing Company.

Note 4: The Northwest Region includes Xi'an Company, Karamay Company, Bayannur Company, Linxia Company and Jiuquan Company.

Note 5: The Central China Region includes Fuyang Company, Wuhan Company, Yingshang Company, Changsha Tianchuang Water, Changsha Tianchuang Environmental Protection, Anhui Company, Honghu Tianchuang, Hefei Company and Hanshou Company, and the increase was due to commencement of operation of Jieshou, Hefei and Honghu Tianchuang Project this year.

Note 6: The Eastern China Region includes Hangzhou Company, Baoying Company and Deqing Company.

Note 7: The Northeast Region includes Dalian Chunliuhe Company, Wendeng Company and Shandong Company, and the increase was due to the increased scale and treatment volume of the hazardous waste business of Shandong Company this year.

(2). *Analysis of production and sales volume*

Not applicable

(3). Cost analysis

Unit: 0' 000 Currency: RMB

By industry							
Industry	Cost item	Amount for the current period	Percentage of total cost for the current period (%)	Amount in the same period last year	Percentage of total cost for the the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year(%)	Explanation
Sewage treatment business	Labor cost	15,373	7.59	14,532	8.07	5.79	Nil
	Energy consumption (electricity)	26,618	13.14	24,874	13.82	7.01	Nil
	Material consumption	32,300	15.95	26,159	14.53	23.48	Nil
	Depreciation and amortisation	44,428	21.94	43,081	23.94	3.13	Nil
	Other manufacturing expenses	36,689	18.11	30,082	16.71	21.96	Nil
	Subtotal	155,408	76.73	138,728	77.07	12.02	Nil
Tap water supply business	Labor cost	1,237	0.61	1,318	0.73	-6.15	Nil
	Energy consumption (electricity)	1,069	0.53	936	0.52	14.21	Nil
	Material consumption (including source water fee)	3,233	1.60	3,179	1.77	1.70	Nil
	Depreciation and amortisation	1,585	0.78	1,846	1.03	-14.14	Nil
	Other manufacturing expenses	952	0.47	373	0.21	155.23	Increase in maintenance costs and other expenses for the current year
	Subtotal	8,076	3.99	7,652	4.26	5.54	Nil
Recycled water business	Labor cost	2,060	1.02	2,194	1.22	-6.11	Nil
	Energy consumption (electricity)	1,157	0.57	1,261	0.70	-8.25	Nil
	Material consumption	1,203	0.59	1,081	0.60	11.29	Nil
	Depreciation and amortisation	2,501	1.23	2,710	1.51	-7.71	Nil
	Other manufacturing expenses	5,694	2.81	5,177	2.88	9.99	Nil
	Subtotal	12,615	6.23	12,423	6.91	1.55	Nil
Recycled water pipe network connection business	Project construction cost	10,037	4.96	8,714	4.84	15.18	Nil
	Subtotal	10,037	4.96	8,714	4.84	15.18	Nil
Cooling and heating business	Labor cost	1,150	0.57	1,203	0.67	-4.41	Nil
	Energy consumption (electricity)	2,199	1.09	2,343	1.30	-6.15	Nil
	Material consumption	43	0.02	74	0.04	-41.89	Decrease in water charge
	Depreciation and amortisation	2,562	1.26	2,348	1.30	9.11	Nil
	Other manufacturing expenses	756	0.37	1,045	0.58	-27.66	Nil
	Subtotal	6,710	3.31	7,013	3.89	-4.32	Nil

4. Management Discussion and Analysis

Industry	Cost item	Amount for the current period	Percentage of total cost for the current period (%)	Amount in the same period last year	Percentage of total cost for the the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year(%)	Explanation
Road toll business	Toll management fee	712	0.35	712	0.40	0.00	Nil
	Subtotal	712	0.35	712	0.40	0.00	Nil
Transformation of achievements in technology research	Material cost, equipment cost	1,337	0.66	1,785	0.99	-25.10	Nil
	Other manufacturing expenses	146	0.07	152	0.08	-3.95	Nil
	Subtotal	1,483	0.73	1,937	1.07	-23.44	Nil
Others	Product sales	2,687	1.33	2,196	1.22	22.36	Nil
	Others manufacturing expenses	4,814	2.38	604	0.34	697.02	The hazardous waste handling business was put into operation in the fourth quarter of 2019. The disposal volume increased this year and the cost increased significantly
	Subtotal	7,501	3.70	2,800	1.56	167.89	
Total		202,542	100	179,979	100	12.54	

Cost analysis and other explanation

Nil

(4). Major customers and major suppliers

Sales from the top five customers amounted to RMB1,853.97 million, accounting for 55% of the total sales for the year; among which, sales from related parties was RMB90.47 million, accounting for 3% of the total sales for the year.

Procurement from the top five suppliers amounted to RMB509.5 million, accounting for 12.66% of the total procurement for the year; among which, procurement from related parties was RMB0, accounting for 0% of the total procurement for the year.

Other explanation

Nil

2. Expenses

See the above analysis statement on changes of relevant items in income statement and cash flow statement for details.

3. Research and development investment*(1). Research and development investment*

Unit: 0'000 Currency: RMB

Expensed research and development investment for the current period	1,320.1
Capitalized research and development investment for the current period	486.74
Total research and development investment	1,806.84
Percentage of total research and development investment over operating revenue (%)	0.54
Number of research and development personnel in the Company	241
Percentage of the number of research and development personnel over the total number of personnel of the Company (%)	11.8
Ratio of capitalized research and development investment (%)	26.94

(2). Explanation

The proportion of R&D investment and capitalization in the current period is less than that of last year, mainly because the restructuring of R&D base was carried out in 2019, and most of the corresponding fixed assets purchases were completed in 2019.

4. Cash flow

See the above analysis statement on changes of relevant items in income statement and cash flow statement for details.

(II) MAJOR CHANGES IN PROFITS CAUSED BY THE NON-PRINCIPAL BUSINESS

Not applicable

4. Management Discussion and Analysis

(III) ANALYSIS OF ASSETS AND LIABILITIES

Assets and liabilities

Unit: 0'000 Currency: RMB

Items	Amount as at the end of the current period	Percentage of the amount as of the end of the current period to the total assets (%)	Amount as at the end of the previous period	Percentage of the amount as of the end of the previous period to the total assets (%)	Percentage of change in amount as at the end of the current period as compared with the end of the previous period (%)	Explanation
Notes receivable (Note 1)	265.60	0.01%	1,613.10	0.09%	-83.53%	Mainly because some bank acceptance notes were due
Prepayments	2,622.00	0.14%	3,858.30	0.21%	-32.04%	Mainly because the advance payment for supporting projects for the current period was less than that of the same period last year
Other receivables	2,411.70	0.13%	6,515.60	0.36%	-62.99%	Mainly because the Company recovered some deposit and received VAT refund
Long-term receivables	164,740.20	8.76%	23,645.00	1.31%	596.72%	Mainly because accounts receivable with an estimated recovery time of more than 12 months were reclassified to long-term receivables
Property, plant and equipment	81,935.40	4.36%	80,100.70	4.45%	2.29%	Mainly due to the increased investment in non-concession projects in the current period
Deferred income tax assets	1,296.50	0.07%	420.90	0.02%	208.03%	Mainly due to the recognition of the income tax effect of deductible temporary differences
Other non-current assets	33,097.10	1.76%	19,591.90	1.09%	68.93%	Mainly because the Company's longterm VAT input tax to be deducted was increased
Borrowings-current	158,298.20	8.42%	105,986.90	5.89%	49.36%	Mainly because the bonds payable mature within 1 year were reclassified to non-current liabilities due within 1 year
Salaries and wages payables	8,562.00	0.46%	6,610.00	0.37%	29.53%	Mainly due to the provision for the 2020 year-end bonus
Taxes payable	5,684.10	0.30%	8,618.80	0.48%	-34.05%	Mainly due to the payment of the provision for the value-added tax in the previous year as a result of the water price adjustment, and the decrease in value-added tax accrued this year due to the adjustment of the value-added tax policy
Other payables	95,563.10	5.08%	153,284.20	8.52%	-37.66%	Mainly because the project costs payable and equipment payments are less than that of the same period last year
Borrowings-non-current	557,447.60	29.65%	506,679.70	28.16%	10.02%	Mainly due to the new long-term borrowings in the current period

Note 1: Notes receivable are listed in accounts receivable.

(IV) ANALYSIS OF INDUSTRY OPERATIONAL INFORMATION

Through more than twenty years of development, the environmental industry has completed its upgrade from the era of single-sector treatment to comprehensive service. Starting from the late stage of the “13th Five-Year Plan”, the environmental industry is experiencing a new stage of development, which is, upgrading from comprehensive environmental services to systematized services. With the revision of the Water Pollution Prevention and Control Law (《水污染防治法》) becoming effective, the local governments have more clear demands for the enhancement and assurance of the water environment quality. On the one hand, the existing sewage treatment plants have gradually begun to be upgraded in order to meet the higher discharge standards. On the other hand, the comprehensive management of water environment will become the mainstream demand of the market. The Group offered comprehensive solutions for sewage treatment and other relevant environmental treatments according to customer requirements and customer needs, and made profits based on operation and core technologies, striving to build technical system with core competitive advantages and continuous R&D capabilities and services, leading the whole industry chain of service with technology.

During the reporting period, the capacity of sewage treatment section was 4,637,250 m³/day, representing an utilization rate of capacity of approximately 82.71%; the capacity of supply section of tap water and industrial water was 315,000 m³/day, representing an utilization rate of capacity of approximately 50.95%; the capacity of recycled water section was 385,000 m³/day, representing an utilization rate of capacity of approximately 42.86%; the sewage treatment capacity of new plant was 72,000 m³/day, and the planned capacity of projects under construction was approximately 87,850 m³/day, which was expected to be put into operation in 2021.

The unit price of the sewage water treatment service fee of the Company was determined with reference to the industry norms and standards and according to the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return through the negotiation between the Company and the local government departments or entities designated by the government. During the reporting period, the unit price of sewage treatment service fee of Tianjin Jingu, Beichen, Xianyang Road and Dongjiao Sewage Treatment Plants was adjusted after negotiation with relevant departments of Tianjin Municipal Government, adopting the provisional price of sewage treatment service fee of RMB2.32/m³. In addition, the unit price of RMB2.32/m³ was also applicable to the emergency project of sewage water treatment plant at Xianyang Road (old plant) which has a sewage treatment capacity of 150,000 tons/day after upgrade and operation.

During the reporting period, the supply projects of tap water and industrial water of the Group were mainly distributed in Qujing of Yunnan, Hanshou of Hunan and Bayannur of Inner Mongolia. The Company's supply volume was approximately 59,171,400 tons, representing an increase of approximately 7.96% as compared to that in 2019, which was mainly due to the tap water project in Hanshou officially put into commercial operation in June 2019, approximately 5 months less as compared to the reporting period. The sales volume of tap water and industrial water was approximately 54,118,400 tons, representing a decrease of approximately 1.26% as compared with that in 2019, which was mainly due to the decrease in water consumption as compared with that in 2019 as a result of suspension of certain enterprises affected by the outbreak of COVID-19 during the reporting period.

4. Management Discussion and Analysis

(V) ANALYSIS OF INVESTMENT

1. Overall analysis of equity investment

During the reporting period, the Company's equity investment was distributed in the water utilities business and the hazardous waste business, which was used for the establishment of project companies or purchase of equity thereof. The total amount of equity investment in 2020 was at approximately RMB168.7426 million, representing a decrease of 69.56% as compared to the previous year.

(1) Major equity investment

- (1) On 24 December 2019, the Board approved to establish Huize Capital Water Co., Ltd.* (會澤創業水務有限公司) ("Huize Company") for the purpose of investment, construction, operation and maintenance of PPP project of the construction of the urban sewage treatment facilities for towns in Huize County. The registered capital of Huize Company was RMB41.2368 million, of which RMB32.6595 million was contributed by the Company, representing 79.20% of the total investment, RMB329,900 was contributed by Yunan Huaxin Construction Engineering Co., Ltd.* (雲南華鑫建工有限公司), representing 0.80% of the total investment, and RMB8.2474 million was contributed by the government on behalf of the Huize sewage treatment plant, representing 20% of the total investment. During the reporting period, the capital injection was completed.
- (2) On 24 December 2019, the Board approved to establish Huoqiu Capital Water Co., Ltd.* (霍邱創業水務有限公司) ("Huoqiu Company") for the purpose of investment, construction, operation and maintenance of phase I of the PPP project of the second sewage treatment plant in the north of Huoqiu County. The registered capital of Huoqiu Company was RMB41.2830 million, of which RMB37.1547 million was contributed by the Company in cash, representing 90% of the total investment, and RMB4.1283 million was contributed by Huoqiu County Urban Construction Investment Co., Ltd.* (霍邱縣城鎮建設投資有限公司) in cash, representing 10% of the total investment. During the reporting period, the capital injection was completed.

- (3) On 27 April 2020, the Board approved to make an additional investment to Changsha Tianchuang Water for the change in the work of the PPP project of the sewage treatment and recycled water reuse engineering within Ningxiang Economy and Technology Development Zone. The Company will recover and obtain a reasonable return from the additional investment of RMB10.5232 million through adjusting wastewater treatment service fee of project and signing a supplementary agreement. In accordance with the requirements of the “Licensed Operation Agreement”, the capital amount of the project shall be 20% of the additional investment, i.e. RMB2.1046 million, which was contributed proportionally by four shareholders of Changsha Tianchaung Water, of which RMB1.6837 million was contributed by the Company, representing 80% of the total investment, RMB63,100 was contributed by Tianjin Motianmo Technology Co., Ltd.* (天津膜天膜科技股份有限公司), representing 3% of the total investment, RMB147,300 was contributed by Tianjin Second Municipal Road Engineering Co., Ltd.* (天津第二市政公路工程有限公司), representing 7% of the total investment; and RMB210,500 was contributed by Changsha Shuntai Investment Management Co., Ltd.* (长沙顺泰投资管理有限公司), representing 10% of the total investment. Upon completion of the capital increase, the registered capital of Changsha Tianchaung Capital Water increased from RMB19.1476 million to RMB21.2522 million, and it remains to be the controlling subsidiary of the Company. During the reporting period, the capital increase was completed.
- (4) On 27 April 2020, the Board approved to make an additional investment by Jiayuanxing (a wholly-owned subsidiary of the Company) to Jiayuanxin for implementing the distributed photovoltaic power generation project. The capital increase was contributed proportionally by both shareholders of Jiayuanxin according to their respective shareholding, of which Jiayuanxing contributed RMB2.49 million, representing 60% of the capital increase and Tianjin Kangyuan Power Engineering Co., Ltd.* (天津康源電力工程有限公司) contributed RMB1.66 million, representing 40% of the capital increase. Upon the capital increase, the registered capital of Jiayuanxin was increased from RMB5 million to RMB9.15 million and it remains to be the controlling subsidiary of Jiayuanxing. During the reporting period, the capital increase was completed.
- (5) On 24 June 2020, the Board approved the Company to make an additional investment of RMB142.17 million to Xi'an Company for implementing the upgrade and renovation and covering and deodorization project of the two plants in Xi'an. Upon the capital increase, the registered capital of Xi'an Company was increased from RMB334 million to RMB476.17 million. During the reporting period, such capital increase was not yet completed.

4. Management Discussion and Analysis

- (6) On 7 August 2020, the Board approved to establish Dongying Company for the purpose of implementing the project of comprehensive material ecology disposal center in agricultural hightech industry demonstration zone in the Yellow River Delta in Shandong Province. The registered capital of Dongying Company was RMB136.30 million, of which RMB69.513 million was contributed by the Company in cash, representing 51% of the total investment, and RMB66.787 million was contributed by Shandong Wanli Real Estate Co., Ltd.* (山東萬里置業有限公司) in cash, representing 49% of the total investment. During the reporting period, Dongying Company was established and the capital injection has not been completed.
- (7) On 24 December 2020, the Board approved to purchase the entire equity interest of Compro Company and Yonghui Company for the purpose of shoring up weaknesses of the Company's hazardous wastes business, enhancing market competitiveness with regional layout and strengthened hazardous waste disposal capacity, and comprehensively building industrial chain and regional integrated service capability. The registered capital of Compro Company and Yonghui Company was RMB100 million and RMB50 million respectively. Based on the asset appraisal value filed with the Stateowned Assets Supervision and Administration Commission, after discussion with the shareholders of Compro Company and Yonghui Company, the actual consideration payable for the acquisition of Compro Company and Yonghui Company was RMB733 million in total, which was funded by the Company's internal funds and merger and acquisition loans. During the reporting period, the change of industrial and business registration in relation to the transfer of equity interest has not been completed and the transfer price has not been fully paid.

(2) *Major non-equity investment*

Not applicable

(3) *Financial assets measured by fair value*

Not applicable

(VI) DISPOSAL OF MAJOR ASSETS AND EQUITY INTEREST

International Machinery Company is an invested company of Sino Company, a wholly-owned subsidiary of Hong Kong Company (a wholly-owned subsidiary of the Company). With the registered capital of RMB120 million, International Machinery Company was incorporated in June 2005, in which Sino Company and Tianjin BENEFO Machinery Equipment Group Co., Ltd.* (天津百利機械裝備集團有限公司) hold 27.5% and 72.5% equity interest respectively. To revitalize remnant assets, realize collection of funds and reduce the grade of enterprise as well as achieve equity withdrawal by way of equity transfer, Sino Company transferred its 27.5% equity interest in International Machinery Company through open tender in Tianjin Property Rights Exchange at a basic price of nominal quotation of RMB33.38357 million. During the reporting period, the transfer of equity interest has not been completed.

(VII) ANALYSIS OF MAJOR COMPANIES IN WHICH THE COMPANY HAS INVESTED

Unit: 0'000 Currency: RMB

Subsidiary	Principal Place of Business	Major Products or Services	Registered Capital	Type of Legal Person	Shareholding of the Company	Asset Size	Net Assets	Net Profits
Water Recycling Company	Tianjin	Production and sales of recycled water; development and construction of water recycling facilities; and manufacturing, installation, debugging, and operation of water recycling facilities, etc.	10,000	Limited company	100%	118,108.03	28,998.00	9,049.16
Hangzhou Company	Hangzhou, Zhejiang	Operation and maintenance of facilities for sewage treatment and recycled water usage, and supporting services such as its technical services and technical training	37,744.50	Limited company	70%	89,176.83	70,729.22	7,937.66
Xi'an Company	Xi'an, Shaanxi	Development, construction, operation, and management of municipal sewage treatment plants, and tap water and its supporting facilities; and R&D and promotion of environment protection technology	33,400	Limited company	100%	64,161.58	51,339.26	3,639.55
Jiayuanxing	Tianjin	Development, consulting, service, and transfer of energy conservation and new energy technologies; and property management services	19,195.052	Limited company	100%	67,606.87	34,941.34	3,203.99
Caring Company	Tianjin	Environmental engineering management and technical advice etc.	3,333.3333	Stock Limited Company	60%	16,147.10	12,399.55	1,187.19
Bayannur Company	Bayannur, Inner Mongolia	Processing of sewage water, production and sales of recycled water and supply of tap water	106,757.79	Limited company	70%	113,426.12	111,068.78	-1,397.22
Shandong Company	Shandong	Solid waste and hazardous materials handling and disposal	19,200.00	Limited company	55%	56,428.51	18,862.41	475.41
Fuyang Company	Fuyang, Anhui	Development, construction and management of municipal sewage treatment plants, tap water and their supporting facilities and solid waste treatment facilities; Research and development and promotion of environmental protection technology	38,990.85	Limited company	100%	113,167.12	54,360.33	5,048.52

Water Recycling Company recorded a revenue of RMB293.7138 million from principal operations and an operating profit of RMB118.9367 million in 2020.

Hangzhou Company recorded a revenue of RMB259.5597 million from principal operations and an operating profit of RMB81.4895 million in 2020.

4. Management Discussion and Analysis

(VIII) STRUCTURED ENTITIES CONTROLLED BY THE COMPANY

Not applicable

III. DISCUSSION AND ANALYSIS OF THE COMPANY'S FUTURE DEVELOPMENT

(I) STATUS AND TRENDS OF THE INDUSTRY

2021 is the opening year of the “14th Five-Year Plan”, during which a series of changes will take place in environmental protection industry. The following four changes are of concern:

1. *Elevate from water environment treatment to ecological management*

With the rising demands on systematized environmental treatment and the slowdown in growth of the market size of water utilities industry, sewage treatment enterprises are gradually elevating from sewage treatment to water environmental treatment, and then to ecological management. During the elevation process from water environmental treatment to ecological management, enterprises often take their primary businesses as the starting point to expand business step by step through resources, markets or business relations. Some enterprises accomplish crossover development through acquisition. In the existing field of solid waste, hazardous waste treatment, co-processing and disposal for organic material (sludge, food waste, kitchen waste, livestock and poultry waste) have a great market demand, which have become the main venue for new business strategic transition of many water environmental enterprises. In addition, in the context of systematic treatment, enterprises focus more on the synergy among industrial chains and the excavating of added value to high-margin segments, therefore, the vertical expansion on high-end devices, technical services and other industrial chains has also become the direction for the strategic layout and optimization of water heavy asset enterprises.

2. *Elevate from integrated control to systemic treatment*

Through more than twenty years of development, the environmental industry has completed its elevation from the era of single-sector treatment to comprehensive service. Starting from the late stage of the “13th Five-Year Plan”, the environmental industry is experiencing a new stage of development, i.e. elevating from comprehensive environmental services to systematized services. The “Clean Water Action Plan” issued in 2015 is a start of comprehensive environmental treatment. A integrated treatment model has formed in the process of treatment of the black and odorous water (from source pollution control on river channel to water pollution control, expansion and upgrading of sewage plants, initial rainwater, etc.). During the “13th Five-Year Plan” period, comprehensive water environmental treatment projects with large investment and more treatment

sectors have been highlighted. The treatment on the black and odorous water in China has also made a great breakthrough under comprehensive water treatment. With strengthening on sector assessment during the “14th Five-Year Plan”, the systemic treatment with water bodies as the core has been accentuated, which focuses more on the systemic treatment effect as compared to the comprehensive treatment, for example, systemic water treatment is implemented by systematically combining the discharge and reuse of tailwater from sewage plants, maintenance of the pipe network and control of the influent concentration of sewage plants, treatment of initial rainwater, and pumping stations of mixed flow of rain and sewage water in river channels by region based on river section evaluation.

3. *Elevate from scale driven to the era of high-quality service*

Since the reform and opening-up, China’s infrastructure construction has entered the fast development stage, part of which takes a leading position in the world, lending strong support to the sustainable and healthy development of our economy and society, and meanwhile, the construction on infrastructure of the water utilities industry has been upgraded rapidly. But it should be noted that growth on scale of the water utilities industry has slowed down since the late stage of the “12th Five-Year Plan”, which would slow further during the “14th Five-Year Plan” period, indicating that water utilities industry has elevated from the era of capital-driven to effect-driven. In the scale-driven era, capital is the fundamental driving force for industry development, and enterprises gained market shares by investment and made profits and earnings from capital growth. Enterprises’ outbound expansion often depends on its control over assets. When the market turns mature, the pace of elevating to the effect-driven era will be quickened. Under the effect-oriented model, enterprise’s market share depends on its service satisfaction, and business expansion lies in the elevation of technology and service, as well as the sustainable assurance on services.

4. *Elevate from heavy asset expansion to combined light-and-heavy asset model*

As the slowdown in the growth on scale of the municipal water utilities industry and shrinking on space of business expansion, the leading enterprises in the industry are starting to layout the elevation from heavy asset expansion to combined light-and-heavy asset service model, but it should be noted that market expansion of heavy asset group continues to be dominated by the heavy asset investment model due to limitation on growth of revenue and profit, while the light asset service model is taken as supplements, whose rate in main operating revenue will rise gradually. Therefore, during the “14th Five-Year Plan” period, the enterprises’ operation capability and technical service will be the key factors restricting its development. The infusion of technology, such as upgrading of technique and assisting of intelligent control, will be the direction for enterprises upgrading their core competitiveness in the future, which will also be one of the important factors for driving stock assets market under the internal circulation in sewage treatment industry.

4. Management Discussion and Analysis

(II) DEVELOPMENT STRATEGY OF THE COMPANY

Positioning itself as a “professional systematized environmental service provider”, the Company will, on one hand, take sewage treatment as the core to improve its control over the high value-added industrial chain sectors, and on the other hand, improve its operation efficiency on primary business by enhancing its technical and operation capability. Based on this, the Company will create comprehensive environmental management industry ecology, ranging from solid waste, water utilities to energy, to open up the industrial chain and provide systematic service. In 2021, in consideration of the evolution of the COVID-19, the potential risks still needs to be closely observed. The Company will continue to work for epidemic prevention and control and at the same time for production and operation, attaching equal importance to both. Specifically, keeping an eye on changes in external risks, the Company draws up plans for risk prevention and control, and pushes forward deep transformation and high-quality development of enterprises through business guidance, technology empowerment and capital guarantee, striving to make a good start of “14th Five-Year Plan”.

(III) OPERATING PLANS

1. *Progress of development strategy and operating plan of the Company during the reporting period*

In 2020, the Company used the “13th Five-Year” strategic plan as its guideline to consolidate staff’s efforts and adjust business structure. It deepened reforms continuously, facilitated talent cultivation and team establishment, vigorously pursued scientific and technological innovation and focused on the refined management as the major task. Through comprehensive distribution, careful planning and solid progress, the operation strategy and operation plan formulated by the Board at the beginning of the year has basically been completed.

2. 2021 is the first year of “14th Five-Year” strategic plan of the Group. The Company will combine the 14th five-year strategic plan and 3-year action plan to deepen reform continuously, enhance quality and efficiency to expand and strengthen the principal business. Based on the sewage treatment investment and operation, the Company will improve the industrial chain vertically, strengthen the internal control, group and subsidiaries management as well as risk control, fully exerting institutional advantage of state-owned listed company to continuously improve corporate governance capability. The Company will work hard to strengthen fund operation so as to ensure its safety and avoid the risks in fund management. The business strategies for 2021 are as follows:

(1) **Adhere to the business promotion principle**

Improve capacity on sewage treatment, recycled water producing and selling and water supply steadily, explore smart water utilities operation, business chain extension and new business models, continue to promote the expansion and development on environment businesses such as hazardous waste treatment, sludge treatment, kitchen waste disposal, industrial wastewater treatment, new energy heating and cooling, and environmental protection technology on the basis of the principle of expanding and strengthening principal business and optimizing the structure.

(2) **Enhance technology leading concept**

Create new pattern of promoting innovative development with technological means through upgrading the technology system, products and services as well as the guarantee mechanism. Integrate the internal and external resources with necessary support mechanisms and incentive measures to enhance the R&D efficiency on market-oriented product services by setting up technical innovation bases and professional research centers as well as R&D, transformation, communication platforms.

(3) **Innovate in capital guarantee**

Capital is the key driving force for enterprise development, thus, to facilitate the implementation of strategies, the Company will actively explore various financing channels and styles by combining the features and demands of various business services, business types and business modes. In addition, fortify the fund management and improve the capital utilization efficiency.

4. Management Discussion and Analysis

(4) Strengthen the Party's leadership

Always give top priority to enhancing the Party's political building and give full play to the leading and directing role of the Party organization, so as to provide solid political, talent and organizational safeguard for the Company's market-oriented operation and management and high-quality development. Deepen the application of evaluation results, facilitate the rectification and reform by evaluation, promote effectiveness by rectification and reform and escort our operation based on institutional development.

(5) Optimize internal control

Optimize group management and control, strengthen management objectives and evaluation, enhance management efficiency and promote strategic implementation by consolidating resources and delegating authority based on business needs. Attach importance to the building of the governance system of the subsidiaries and demonstrating its roles. Focus on key elements such as environment analysis, risk evaluation, information integration, activity control and internal supervision to further improve the internal risk control system.

(6) Build talents system

Adhering to the principle of management of cadres and talents by the Party, implement the mechanism that allows for "flexible in increase and decrease" and "flexible in entry and exit" according to the market demands, take improving the quality and ability of the talent team as the core to build talent team for enterprise. Enhance the talent reserve and training, build platform to promote mobility, and encourage to identify and cultivate talents and build talent team in a "learning in work" way.

3. *Income, expenses, and cost plan:*

In 2021, it is expected that the sewage treatment business will remain as the principal business of the Group, and the annual sewage treatment will be not less than 1.46149 billion m³. With the raising of discharge standards applicable to various water projects in Tianjin and other cities and the continuous increase in costs of various types of resources, energy, and labor, the operation costs of projects increase. If there are no major changes in the prevailing national guidelines, policies, and business environment, it is expected that the amount of variation in revenue from and cost for the sewage treatment service will not be higher than 20%.

4. *Plan for investment in technology R&D:*

In 2021, the Group will invest not less than approximately RMB10.34 million in technology R&D plus development and technological reforms, and will continue to conduct research and development on the new technical processes and application technologies in the areas of sewage water treatment and sludge treatment, etc.

5. In 2021, the estimated capital expenditure is RMB5.5 billion, which will be mainly used for the upgrading of water projects and the construction of new energy projects and hazardous waste projects.

In 2021, the capital required for the Group's operation and investment will be satisfied by the Group's existing credit, corporate bonds, equity financing, strategic cooperation, and other channels.

(IV) POSSIBLE RISKS

1. Possible risks

(1) Risk of government credit

Given the characteristic of licensed operation in sewage treatment projects, the capital source of sewage treatment service fee comes mainly from the special sewage-treatment fee charged by the governments through the sales of tap water; the deficient amount will be supplemented by the local governments. Most of the PPP package projects currently promoted included the investment and construction of infrastructures such as pipeline networks with huge investments from social capital sources, the investment return relies mainly on the payment of sewage treatment service fee from the governments. Therefore, the exclusiveness of capital source determines the importance and cruciality of the government credibility. Whether water utilities companies can recoup the investment as scheduled and obtain the expected rate of return depends on the level of government's fiscal revenue and expenditure and credibility. In case the risk related to government credibility occurs, the project companies will face cash flow problem, which may generate capital risks such as financial risks and financing risks.

4. Management Discussion and Analysis

(2) Risk of change in policy

Currently, the PRC is at the special stage of comprehensive deepening of reform. For a long period in the future, there will be transformative changes in policies related to economy, finance, prices, financial taxation and government functions, etc. The policy changes in prices and taxes will directly influence the adjustment of water price. During the licensed operation period lasting for 30 years, as a social investor, one needs to focus on the risk of change in policy. In addition, continued access to concession would also pose potential risks at the end of the licensed operation period.

(3) Risk of operation and management

With the continuous escalation of the national environmental management requirement, the demands for upgrading sewage treatment plants gradually increase to meet the new standards. Under this circumstance, on one hand, sewage treatment plants will face the restructuring and operational risk. On the other hand, enterprises will also face the risk of adjusting the original licensed operation agreement. In addition, whether sludge disposal after sewage treatment can form a more perfect business model also ought to be brought to our attention.

2. Risk control measures

(1) Protect the Company's lawful interests by making full use of laws and regulations

Strengthen the concept of corporate governance in accordance with the laws by making full use of its overall legal advisory system to protect lawful interests of the Company. Meanwhile, the Company calls for and supports the further assurance of equality of the contracting parties under the licensed operation and PPP projects, tighten up the performance assessment and profit distribution mechanisms, and provide for the government obligations to pay according to contracts and the rights for investors to get reasonable returns under the laws, so as to reduce the risk related to government credibility and the financial risk of the investors.

(2) Strengthen comprehensive risk management

Determine the target for comprehensive risk management; establish the institutional framework for comprehensive risk management to identify, analyze, assess and deal with possible hidden risks in different business links; improve the risk management system and establish a sound and comprehensive risk management system for the Company; improve its timing and efficiency of the comprehensive risk management of the Company; conduct the dynamic management and effective control over risks so as to reasonably ensure the achievement of the Company's strategic targets. Moreover, on a higher level, advancing structural transformation of enterprise is actually the basic strategies to reduce business risks.

(3) Continue to raise the standards of operating management

As a listed company in the environmental protection field, the Company has control over production and operation risks in a timely manner through standardized management in accordance with relevant changes in policies. Specifically, our risk control measures include staff training, strengthening the consciousness of laws on environmental protection and improving the management and control levels of technologies; strengthening the maintenance and protection of facilities for proper preservation of asset value and stable operation; perfecting the monitoring of quality, promoting control over the whole process to ensure the final products could meet the standards of discharge; developing water environment remedy plans and safe production plans, so as to ensure careful operation and the best environmental performance of the Company under force majeure conditions. It is also important to maintain smooth contact and strengthen communications with local governments and regulatory authorities.

(V) OTHERS

Not applicable

IV. FAILURE TO DISCLOSE AS PER RULES DUE TO INAPPLICABILITY OR SPECIAL REASONS, SUCH AS STATE SECRETS AND BUSINESS SECRETS

Not applicable

5. Major Events

I. PROPOSAL ON ORDINARY SHARE PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND

(I) Formulation, Execution, or Adjustment of Cash Dividend Policy

In order to establish a sustainable, clear, and transparent cash dividend policy and a scientific decision-making mechanism and to improve the quality of the Company's information disclosure in the principle of the "Listed Companies Regulatory Guidance No. 3 – Cash Dividend Distribution of Listed Companies" issued by the CSRC, the Company revised the article related to profit distribution in its Articles of Association. The aforesaid revision to the Articles of Association was considered and approved by the Company at the 16th meeting of the seventh Board on 8 September 2016 and at the second extraordinary general meeting of 2016 held on 30 December 2016. Article 201 of the Articles of Association was amended as follows:

I. Basic principles for profit distribution of the Company:

- (1) The Company shall take full account of the return to investors. The Company shall, after making up for the losses of previous years and contributing to the statutory reserve and discretionary reserve, distribute dividends to the shareholders per annum in proportion to distributable profit realized for the year concerned attributable to the parent company, which shall be determined by resolutions at the general meetings.
- (2) The Company's profit distribution policy shall maintain continuously and stably, for the long term interest of the Company, in the interest of all shareholders as a whole, and for sustainable development of the Company.
- (3) The Company shall give priority to dividend distribution in cash.

I. PROPOSAL ON ORDINARY SHARE PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND (Continued)

(I) Formulation, Execution, or Adjustment of Cash Dividend Policy (Continued)

II. Dividend distribution policies of the Company:

- (1) Dividends shall be distributed in the following manner: the Company may distribute profits in cash, in shares, or in a combination of both cash and shares or by otherwise permitted by laws and regulations. If the conditions of cash dividends are met, priority shall be given to dividend in cash over dividend in shares.
- (2) Interval of profit distribution: provided that the Company makes a profit and the distributable profit is a positive figure for the year, the Company shall distribute profit once a year. To the extent that the scale of profit and the capital position are appropriate for the relevant period, the Company may distribute interim dividend in cash.
- (3) Conditions of cash dividend distribution of the Company:
 1. the Company's profit and aggregate undistributed profit realized for the year are positive with sufficient cash flow, and cash dividend distribution has no impact on the Company's sustained operations;
 2. the accounting firm issues a standard unqualified audit report on the Company's financial report for that year;
 3. the Company has no events such as material investment plan or significant cash expenditure, excluding investments projects using proceeds raised.

Material investment plans or significant cash expenditures refer to the proposed external investment, acquisition of assets or purchase of equipment by the Company in the coming twelve months with an accumulated expenditures amounting to or exceeding 30% of the latest audited net assets of the Company.

5. Major Events

I. PROPOSAL ON ORDINARY SHARE PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND (Continued)

(I) Formulation, Execution, or Adjustment of Cash Dividend Policy (Continued)

II. Dividend distribution policies of the Company: (Continued)

(4) Proportion of cash dividends:

Subject to the satisfaction of the above conditions, the profit to be distributed in cash per annum will not be less than 20% of the distributable profit realized for that year attributable to the parent company, and the Company's aggregated profit distributable by way of cash for three consecutive years will not be less than 30% of the distributable profit attributable to the parent company realized within such three years. The specific dividend proportion of each year shall be determined by the Board according to the profit for the relevant year and utilization plan for future capital.

The Board shall take into full account of various factors such as features of the industries where the Company operates, the stage of development of the Company, its own business model, level of profitability, and whether there is significant capital expenditure arrangement, to distinguish the following situations and put forward a differentiated cash dividend policy in accordance with the procedures as required by this Articles of Association:

1. If the Company is at the mature stage of development and has no significant capital expenditure arrangement, the proportion of cash dividends in the profit distribution shall be at least 80% when the profit distribution is made;
2. If the Company is at the mature stage of development and has significant capital expenditure arrangement, the proportion of cash dividends in the profit distribution shall be at least 40% when the profit distribution is made;
3. If the Company is at the growing stage of development and has significant capital expenditure arrangement, the proportion of cash dividends in the profit distribution shall be at least 20% when the profit distribution is made;

If it is difficult to distinguish the stage of development of the Company and the Company has significant capital expenditure arrangement, the profit distribution may be dealt with pursuant to the preceding provisions.

I. PROPOSAL ON ORDINARY SHARE PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND (Continued)

(I) Formulation, Execution, or Adjustment of Cash Dividend Policy (Continued)

II. Dividend distribution policies of the Company: (Continued)

- (5) Conditions for distributing dividends in shares by the Company: where the Company's business is in a sound condition, and the Board considers that the stock price of the Company does not reflect its share capital size and distributing dividend in shares will be favorable to all the shareholders of the Company as a whole, provided that the above conditions for cash dividend distribution are fully satisfied, the Company may propose dividend distribution in shares. Distributing profit by way of dividend in shares shall include true and reasonable factors such as growth of the Company and dilution of net assets per share.
- (6) Profit distribution of the Company shall not exceed the cumulative distributable profit or damage the Company's sustainable operation ability.
- (7) In case any shareholder misappropriates the funds of the Company unlawfully, the Company will deduct cash dividends to be distributed to such shareholder for making up the amount misappropriated.

III. Decision making procedures and mechanism of the Company's profit distribution:

(1) Formulation of profit distribution policy

The Company shall scientifically formulate the profit distribution policy of the Company after comprehensively taking into account factors such as the actual conditions of the Company's operating development, the needs and requests of the Shareholders, social capital costs, external financing environment etc.

The profit distribution policy of the Company shall be considered and approved by more than two-thirds of voting shares held by the shareholders (including their proxies) present at the general meeting. The Board, the Supervisory Committee, and shareholders individually or jointly holding 3% or more of the Company's shares, have the right to propose resolution(s) in respect of the profit distribution policy to the Company.

5. Major Events

I. PROPOSAL ON ORDINARY SHARE PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND (Continued)

(I) Formulation, Execution, or Adjustment of Cash Dividend Policy (Continued)

III. Decision making procedures and mechanism of the Company's profit distribution: (Continued)

(1) Formulation of profit distribution policy (Continued)

The Board shall specifically study and discuss matters relating to the returns for shareholders, set out a specific and clear plan on the returns for shareholders and explain the reasons for the formulation of the plan in details. Opinions of shareholders (especially minority shareholders), independent Directors, and Supervisors shall be fully heard and considered during the meeting of the Directors, the meeting of the Supervisors of the Company, and the general meeting in respect of the study, discussion, and decision-making process of the profit distribution policy of the Company.

The Board, independent Directors, and shareholders complying with certain conditions can collect the voting rights at general meeting from the shareholders of the Company.

(2) Formulation of specific proposal of profit distribution

The Company's profit distribution plan for each year shall be proposed by the Company's management after taking into account factors such as the requirements in the Company's Articles of Association, production and operation position, cash flows, and future business development plan, and shall be submitted to the Board and the supervisory committee of the Company for consideration. If the supervisory committee has no objection to the profit distribution plan, the Board shall thoroughly discuss its rationality, taking into account the opinions from the independent Directors, and form a special proposal as well as an independent view expressed by independent Directors on profit distribution proposal for the consideration and approval by the shareholders at the general meeting.

The Board shall fully consider the capital needs of normal production and operation of the Company, arrangement of investment, actual profit status, cash flows and scale of share capital of the Company and the sustainability of development when formulating the specific proposal of cash dividend, and carefully study and discuss the timing, conditions and minimum proportion of cash dividend of the Company, conditions for adjustment and requirements for decision-making procedures. Independent Directors shall express specific views.

I. PROPOSAL ON ORDINARY SHARE PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND (Continued)

(I) Formulation, Execution, or Adjustment of Cash Dividend Policy (Continued)

III. Decision making procedures and mechanism of the Company's profit distribution: (Continued)

(2) Formulation of specific proposal of profit distribution (Continued)

Independent Directors can collect views from minority shareholders to propose profit distribution proposal and directly propose to the Board for consideration.

Prior to consideration of the specific proposal of cash dividend at the general meeting, the Company shall actively communicate and exchange ideas with shareholders (especially minority shareholders) through various channels (including but not limited to telephone, facsimile, e-mail and interactive platforms), fully listen to the opinions and requests of medium and small shareholders and reply in a timely manner the questions from minority shareholders. When considering the profit distribution plan, the Company shall make internet voting accessible to the shareholders.

- (3) If the Company makes a profit for the year, but the Board does not propose the profit distribution proposal by the way of cash, the Company shall explain the reason and the usage and plan of utilization for the capital which is not utilized as cash dividends and reserved in the Company, and independent Directors shall express independent views thereupon and timely disclose; it shall propose to the general meeting for consideration after consideration and approval by the Board. Meanwhile, the Company shall make internet voting for medium and small shareholders to vote at the general meeting.

5. Major Events

I. PROPOSAL ON ORDINARY SHARE PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND (Continued)

(I) Formulation, Execution, or Adjustment of Cash Dividend Policy (Continued)

IV. Adjustment to profit distribution policy:

The Company shall strictly implement the profit distribution policy stipulated in this Articles of Association and the specific proposal of profit distribution considered and approved at the general meeting.

In case of war, natural disasters and other force majeure, or changes to the Company's external operational environment resulting in a material impact on its production and operation, or relatively significant changes to the Company's operational position, or new policies on profit distribution published by competent authorities in which cases the profit distribution policy stipulated by this Articles of Association, in particular the cash dividend policy, is required to be adjusted, the Company may adjust its profit distribution policy. The Board shall thoroughly discuss the rationality of the adjustment to the profit distribution policy, and form a special proposal after an independent view is expressed by the independent Directors and submit the same for the consideration by the shareholders at the general meeting. The proposal shall be considered and approved by more than two-thirds of voting rights held by the shareholders (including their proxies) present at the general meeting.

The supervisory committee shall issue its review opinions on the adjustment to the profit distribution policy.

The adjusted profit distribution policy shall not contravene with the relevant requirements of the CSRC and the stock exchange on which shares of the Company are listed.

When the general meeting considers the adjustment to the profit distribution policy, the Company shall make internet voting accessible to the shareholders or collect voting rights of the shareholders.

I. PROPOSAL ON ORDINARY SHARE PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND (Continued)

(I) Formulation, Execution, or Adjustment of Cash Dividend Policy (Continued)

V. Disclosures in regular reports:

The Company shall disclose in details the formulation and implementation of cash dividend policy in its annual reports, and specifically explain whether it is in compliance with the provisions of this Articles of Association or requirements of the resolutions of the general meeting, whether the criteria and proportion of dividend distribution is specific and clear, whether the relevant decision-making procedures and mechanism are complete, whether independent Directors duly perform their duties and play their due roles, whether medium and small shareholders have opportunities to fully express their opinions and requests, and whether the legitimate interests and interests of medium and small shareholders are fully protected.

Where the Company adjusts or changes its cash dividend distribution policy, it shall explain in details as to whether the conditions and procedures of such adjustments or changes are in compliance with relevant regulations and transparent.

If the Company is unable to determine the profit distribution proposal for the year according to the established cash dividend policy or the minimum cash dividend proportion under extraordinary circumstances, the Board shall explain in details the reason for not proposing cash profit distribution according to this Articles of Association, and the usage and plan of utilization for the capital which is not utilized as cash dividends and reserved in the Company, and the independent Directors shall express independent views thereupon and timely disclose.

VI. Supervision on profit distribution by the supervisory committee:

The supervisory committee shall supervise the Board and the management in respect of the formulation and implementation of the profit distribution policy and the status of returns for shareholders and the relevant decision-making procedures.

The supervisory committee shall give specific opinions and monitor the prompt rectification of the Board in the event of any of the following circumstances:

- (1) the cash dividend policy and the plan on returns for shareholders are not strictly implemented;
- (2) the relevant decision-making procedures in respect of the cash dividend distribution are not strictly implemented;
- (3) the disclosure and implementation of the cash dividend policy are not true, accurate or complete.”

5. Major Events

I. PROPOSAL ON ORDINARY SHARE PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND (Continued)

(I) Formulation, Execution, or Adjustment of Cash Dividend Policy (Continued)

The Company has laid emphasis on reasonable returns to investors since its reorganization completed in December 2000. Other than no profit distribution in 2018 due to the preparation for the non-public issuance of A shares, the Company has made cash dividend distribution in other years.

(II) Plan or proposal of ordinary share profit distribution or transfer of capital reserve fund to share capital of the Company for the latest three years (including the reporting period):

Unit: 0'000 Currency: RMB

Year of dividends	Number of bonus shares per 10 shares (shares)	Amount of dividends distributed per 10 shares (Yuan) (inclusive of tax)	Number of shares transferred per 10 shares (shares)	Amount of cash dividends (inclusive of tax)	Net profit attributable to the ordinary shareholders of the Company in the consolidated financial statements for the year	Percentage of the net profit attributable to the ordinary shareholders of the Company in the consolidated financial statements (%)
2020	0	1.20	0	17,127	57,003.9	30.04
2019	0	1.07	0	15,271	50,710.7	30.11
2018	0	1.06	0	15,129	50,116.8	30.19

(III) Any inclusion of shares repurchased through cash in cash dividend

Not applicable

(IV) If the Company records profit and profit distributable to the ordinary shareholders of the Company for the reporting period is positive but there is no proposal for cash dividend, the Company shall disclose the reasons, the usage, and the utilization plan of the undistributed profits in detail

Not applicable

II. PERFORMANCE OF COMMITMENT

- (I) Commitment of the Company's Ultimate Controller, Shareholders, Related Parties, Purchaser, the Company, and Other Related Parties During or Subsisted in the Reporting Period

Not applicable

- (II) Where the Company Has Profit Forecasts on Assets or Projects, and the Reporting Period Was Within the Term of Profit Forecasts, the Company Has to State Whether Such Profit Forecasts on Assets or Projects Are Fulfilled and the Reasons Therefor

Not applicable

III. FUNDS OCCUPIED AND REPAYMENT PROGRESS DURING THE REPORTING PERIOD

Not applicable

IV. EXPLANATION BY THE COMPANY ON "QUALIFIED AUDIT REPORT" PROVIDED BY THE ACCOUNTING FIRM

Not applicable

V. ANALYSIS AND EXPLANATION OF THE COMPANY ON THE REASONS AND EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS

- (I) Analysis and explanation of the Company on the reasons and effects of the changes in accounting policies and accounting estimates

Not applicable

- (II) Analysis and explanation of the Company on the reasons and effects of correction of material accounting errors

Not applicable

- (III) Communication with the former accounting firm

Not applicable

- (IV) Other explanations

Not applicable

5. Major Events

VI. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRMS

Unit: 0'000 Currency: RMB

	Present Appointment
Name of the PRC accounting firm	PricewaterhouseCoopers Zhong Tian LLP
Remuneration of the PRC accounting firm	200
Service years of the PRC accounting firm	26 years
Name of the Hong Kong accounting firm	Pricewaterhousecoopers
Remuneration of the Hong Kong accounting firm	130
Service years of the Hong Kong accounting firm	26 years

	Name	Fees
Accounting firm responsible for internal control audit	PricewaterhouseCoopers Zhong Tian LLP	RMB600,000

Explanations on the Appointment and Removal of Accounting Firms

During the reporting period, the Company did not change its accounting firm. The PRC auditor and Hong Kong auditor of the Company are PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, respectively. As at the end of the previous reporting period, the above two accounting firms have provided auditing services for the Company for 26 years.

VII. RISKS OF SUSPENSION OF LISTING

(I) Causes of Suspension of Listing

Not applicable

(II) Measures to be taken by the Company

Not applicable

VIII. SITUATION AND REASONS FOR TERMINATION OF LISTING

Not applicable

IX. MATTERS RELATING TO BANKRUPTCY AND RESTRUCTURING

Not applicable

X. MATTERS RELATING TO MATERIAL LITIGATION AND ARBITRATION

(I) Litigation and arbitration that were disclosed in the Company's announcements without subsequent progress

Not applicable

(II) Litigation and arbitration that were not disclosed in the Company's announcements or have subsequent progress

During the reporting period:

		<i>Unit: Yuan Currency: RMB</i>							
Plaintiff (Applicant)	Defendant (Respondent)	Party to bear joint liability	Type of litigation or arbitration	Particulars of litigation (or arbitration)	Amount involved in litigation (arbitration) (RMB0' 000)	Any estimated liabilities incurred in litigation (arbitration) and the amount	Progress of litigation (or arbitration)	Ruling results of litigation (or arbitration) and its effect	Enforcement of award of litigation (or arbitration)
Jiayuanxing	Qudong Company	None	Litigation	Note (1)	12,030,003	None	Enforcement	Note (2)	Enforcement terminated Note (2)

Note (1): From 2012 to 2016, Jiayuanxing and Qudong Company signed the "Tianjin Non-residential Buildings Cold Supply Contract (天津市非居民住宅供用冷合同)" and "Tianjin Non-residential Buildings Heat Supply Contract (天津市非居民住宅供用热合同)", in which it is stipulated that Jiayuanxing would provide cold and heat supply services to the Tianjin Cultural Center Grand Theatre (天津文化中心大剧院) that was operated and managed by Qudong Company. Qudong Company did not pay cold and heat supply energy fees to Jiayuanxing on time and in full according to the contract. In order to safeguard the legal rights and interests of Jiayuanxing, on 3 November 2017, Jiayuanxing has filed a civil lawsuit with Hexi Court. On 3 April 2018, the Hexi Court made a first-instance judgment, ruling that Qudong Company shall pay Jiayuanxing cold and heat supply energy fees of RMB12,030,003 from 2012 to 2016 within ten days from the effective date of the first-instance judgment; and case acceptance fees and preservation fees totaling RMB98,980 were burdened by Qudong Company. Both parties refused to accept the first-instance judgment and appealed to the Secondary Intermediate People's Court. On 25 September 2018, the Secondary Intermediate People's Court made the final judgment, ruling to reject the appeal applications of both parties and maintained the original judgment.

5. Major Events

X. MATTERS RELATING TO MATERIAL LITIGATION AND ARBITRATION (Continued)

(II) Litigation and arbitration that were not disclosed in the Company's announcements or have subsequent progress (Continued)

Note (2): On 22 October 2018, Jiayuanxing applied to the Hexi Court for enforcement. On 19 December 2018, under the direction of the Hexi Court, both parties reached a settlement agreement in implementation. Qudong Company shall pay in advance RMB3.16 million and the remaining amounts shall be repaid by four installments by 31 December 2020. If Qudong Company failed to perform any installment, the implementation based on the original legal documents would be resumed. On 11 January 2019, RMB3.1635 million repaid by Qudong Company in advance was in the account. On 21 January 2019, Jiayuanxing received an execution ruling from the Hexi Court. Upon execution, both parties reached a settlement agreement. As the agreement had not been completed for fulfillment, the court made a ruling to end the implementation of (2017) Jin 0103 Minchu No. 12411 civil judgment issued by Tianjin Hexi District People's Court. Qudong Company repaid the first and second installments according to the settlement agreement before 31 December 2019. At present, Qudong Company has paid a total of RMB7.4013 million. It was scheduled that the third installment would be paid by 30 June 2020. However, due to the epidemic, the Company had no performance activities and no operating income in the first half of 2020, so it applied for an extension to Jiayuanxing. On 28 July 2020, Qudong Company provided a situation report, stating that it would act according to the schedule set out in the report, that is, to repay approximately RMB1.5 million by the end of 2021, approximately RMB2 million by the end of 2022, and approximately RMB1.1 million by June 2023. However, because Qudong Company has not been able to re-sign the relevant agreement with Jiayuanxing, Jiayuanxing has sent a letter to Qudong Company, asking Qudong Company to sign the relevant agreement as soon as possible. If the agreement could not be signed by 28 February 2021, Jiayuanxing would apply to the Hexi Court for resumption of enforcement. On 1 March 2021, Jiayuanxing received a reply from Qudong Company, which said that Qudong Company had filed for bankruptcy and could not sign the relevant agreement again. At present, Jiayuanxing is communicating and coordinating with the execution court.

(III) Other explanations

Not applicable

XI. PUNISHMENTS TO AND RECTIFICATION OF THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, ULTIMATE CONTROLLERS, AND PURCHASERS

Not applicable

XII. EXPLANATION ON THE INTEGRITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS, AND ULTIMATE CONTROLLERS DURING THE REPORTING PERIOD

Not applicable

XIII. THE COMPANY'S SHARE INCENTIVE SCHEME, EMPLOYEE STOCK OWNERSHIP PLAN, OR OTHER EMPLOYEE INCENTIVE SCHEME AND THEIR EFFECTS

Matters related to the 2020 A share option incentive scheme ("Share Option Incentive Scheme") were considered and approved by the shareholders of the Company at 38th meeting of the 8th Board of the Company held on 27 November 2020 and the 2020 second extraordinary general meeting, 2020 second A shareholder's class meeting and 2020 second H shareholder's class meeting of the Company held on 23 December 2020. During the reporting period, the Company did not grant any stock options under the Share Option Incentive Scheme.

On 21 January 2021, the grant conditions under the Share Option Incentive Scheme were met. The Board approved the grant of an aggregate of 12,170,000 share options (the "First Grant") to 155 participants (the "Participants") who have fulfilled the grant conditions pursuant to the authorization by the Shareholders. On 29 January 2021, the Company completed the registration for the first grant of share options under the Share Option Incentive Scheme.

For details of the above Share Option Incentive Scheme, please refer to the relevant announcements and overseas regulatory announcements published on the website of Stock Exchange on 27 November 2020, 23 December 2020, 21 January 2021 and 29 January 2021, and the relevant circular published on the website of the Stock Exchange on 8 December 2020.

(1) Purpose of the Implementation of the Share Option Incentive Scheme

In order to further improve the corporate governance structure of the Company, promote the establishment and improvement of the incentive and constraints mechanism, fully mobilize the initiative, responsibility and sense of mission of the directors, senior management, other members of the leadership team, the core management staff, core technical personnel, and business backbone staff of the Company and its holding subsidiaries, effectively align the interests of shareholders, the Company and the operators, and attract common attention and joint efforts to the long-term development of the Company, the Share Option Incentive Scheme is formulated in accordance with the relevant provisions of the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Trial Measures on Implementation of Share Incentive Schemes by State-Owned Listed Companies (Domestic) (Guo Zi Fa Fen Pei [2006] No. 175)* (《國有控股上市公司(境內)實施股權激勵試行辦法》(國資發分配[2006]175號)), the Notice on Issues concerning Regulating the Implementation of the Share Incentive Schemes by State-Owned Listed Companies (Guo Zi Fa Fen Pei [2008] No. 171)* (《關於規範國有控股上市公司實施股權激勵制度有關問題的通知》(國資發分配[2008]171號)) and the Administrative Measures on Share Incentives of Listed Companies* (《上市公司股權激勵管理辦法》), and based on the current compensation system, performance appraisal system and other management systems implemented in the Company.

(2) Determination and Distribution on Participants under Share Option Incentive Scheme

There are no more than 155 Participants for the Share Option Incentive Scheme, including the directors, senior management (excluding the independent Directors, external Directors and supervisors), other members of the leadership team and core technology, management, business and skill backbones of the Company.

The Participants of the Share Option Incentive Scheme do not include supervisors, independent directors, and shareholders or actual controllers who hold more than 5% of the Company's issued shares (including A Shares and H Shares) individually or in aggregate, as well as their spouses, parents and children.

5. Major Events

XIII. THE COMPANY'S SHARE INCENTIVE SCHEME, EMPLOYEE STOCK OWNERSHIP PLAN, OR OTHER EMPLOYEE INCENTIVE SCHEME AND THEIR EFFECTS (Continued)

(2) Determination and Distribution on Participants under Share Option Incentive Scheme (Continued)

The distribution details of the share options of each of the Participants are set out in the following table:

Name	Title	Number of share options granted (In 10,000 options)	Percentage to the total number of share options granted under the Share Option Incentive Scheme	Percentage to the total share capital as at the end of reporting period
Liu Yujun	Executive Director, Chairman	30.00	2.10%	0.0210%
Tang Fusheng	General Manager	30.00	2.10%	0.0210%
Wang Jing	Executive Director	25.00	1.75%	0.0175%
Zhao Yi	Deputy General Manager	25.00	1.75%	0.0175%
Zhang Jian	Deputy General Manager	25.00	1.75%	0.0175%
Li Yang	Deputy General Manager	25.00	1.75%	0.0175%
Li Jinhe	Deputy General Manager, Chief Engineer	25.00	1.75%	0.0175%
Peng Yilin	Chief Accountant	25.00	1.75%	0.0175%
Niu Bo	Executive Director, Secretary to the Board	18.00	1.26%	0.0126%
Reserved options		210.00	14.72%	0.1472%
Other participants (no more than 146 persons)		989.00	69.31%	0.6931%
Total		1,427.00	100.00%	1.0000%

Note: If there is any difference between the total number and the sum of the details in the above table, it is caused by rounding off the results.

(3) Number of Share Options Proposed to be Granted Under the Share Option Incentive Scheme

The number of share options proposed to be granted under the Share Option Incentive Scheme is 14,270,000 and the corresponding number of underlying shares is 14,270,000 A shares, representing not more than 1.0% of the Company's total issued share capital of 1,427,228,430 shares as at the end of reporting period; where 12,170,000 options will be granted for the first time (the "Share Options Granted for the First Time"), representing approximately 0.85% of the total issued capital (1,427,228,430 Shares) of the Company as at the end of reporting period, and approximately 85.28% of the total number of the current share options granted; and 2,100,000 options will be reserved (the "Reserved Share Options"), representing approximately 0.15% of the total issued capital (1,427,228,430 Shares) of the Company as at the end of reporting period, and 14.72% of the total number of the current share options granted.

The nature of the underlying shares is A ordinary Shares in RMB. The source of the underlying shares is issuance of new shares by the Company to the Participants. The cumulative number of the underlying shares of the Company involved in the Share Option Incentive Scheme during the Validity Period shall not exceed 10.00% of the total issued share capital of the Company as at the end of reporting period and the date on which the Share Option Incentive Scheme is approved by the shareholders.

XIII. THE COMPANY'S SHARE INCENTIVE SCHEME, EMPLOYEE STOCK OWNERSHIP PLAN, OR OTHER EMPLOYEE INCENTIVE SCHEME AND THEIR EFFECTS (Continued)

(4) **Maximum number granted for each participant**

None of the Participants of the Share Option Incentive Scheme shall be granted more than 1.00% of the total issued share capital of the Company as at the end of reporting period and the date on which the Share Option Incentive Scheme is approved by the shareholders through the Share Option Incentive Scheme during the Validity Period.

(5) **Vesting Period**

The Vesting Period is the interval between the date of grant and the first exercise date. The Vesting Period of the share options granted to the Participants under the Share Option Incentive Scheme is 24 months, and the exercise of options is not allowed during the Vesting Period.

(6) **Exercise Period and Exercise Date**

The participants of the Share Option Incentive Scheme shall not exercise the share options until the expiration of the Vesting Period. The exercise date must be a trading day within the Validity Period of the Share Option Incentive Scheme, provided that exercise is not allowed in the following periods:

- (I) the period from the date of 30 days prior to the announcements of the periodic reports of the Company to 2 trading days after such announcement, provided that if the announcement date of the periodic report is delayed due to special reasons, it shall be calculated from 30 days prior to the pre-determined announcement date;
- (II) the period from the date of 10 days prior to the announcement of the results forecast and preliminary results of the Company to 2 trading days after such announcement;
- (III) the period from the date of the major transaction or major event decision process to 2 trading days after the announcement of the event;
- (IV) the period from the date of occurrence of other material events that may affect the stock price to 2 trading days after the announcement.

The aforementioned "major transaction", "major event" and "material events that may affect the stock price" are transaction or other major event that should be disclosed by the Company in accordance with the Listing Rules of the Shanghai Stock Exchange.

5. Major Events

XIII. THE COMPANY'S SHARE INCENTIVE SCHEME, EMPLOYEE STOCK OWNERSHIP PLAN, OR OTHER EMPLOYEE INCENTIVE SCHEME AND THEIR EFFECTS (Continued)

(6) Exercise Period and Exercise Date (Continued)

During the exercise period, if the exercise conditions stipulated in the Share Option Incentive Scheme are met, the Participants shall exercise the options in three phases in the next 36 months after the expiration of 24 months from the date of grant (including the Share Options Granted for the First Time and Reserved Share Options). The exercise arrangement is as follows:

Exercise period	Exercise time	Percentage of exercise
First exercise period	From the first trading day after 24 months has passed since the date of grant to the last trading day within 36 months from the date of grant	1/3
Second exercise period	From the first trading day after 36 months has passed since the date of grant to the last trading day within 48 months from the date of grant	1/3
Third exercise period	From the first trading day after 48 months has passed since the date of grant to the last trading day within 60 months from the date of grant	1/3

The Participants must exercise within the exercise period. Where the exercise conditions cannot be fulfilled, the current share options shall not be exercised. Where the exercise conditions are fulfilled, such part of the share options that are not fully exercised during the aforementioned exercise period will be cancelled by the Company.

(7) The Exercise Price and Determination Method

The exercise price of the share option granted under the Share Option Incentive Scheme is RMB6.98 per share, that is, each share option granted to the Participant carries the right to purchase one A Share of the Company at RMB6.98 per share during the Validity Period, subject to the fulfillment of the exercise conditions. The exercise price of Reserved Share Options is RMB6.98 per Share.

The exercise price of share options granted under the Share Option Incentive Scheme shall not be lower than the par value of A Share and shall not be lower than the higher of:

- (I) The average trading price of the A shares of the Company on the trading day immediately before the date of the announcement on the Share Option Incentive Scheme on 27 November 2020, being approximately RMB6.98 per A share;
- (II) The average trading price of the A shares of the Company for the 20 trading days immediately before the date of the announcement on the Share Option Incentive Scheme on 27 November 2020, being approximately RMB6.98 per A share.

XIII. THE COMPANY'S SHARE INCENTIVE SCHEME, EMPLOYEE STOCK OWNERSHIP PLAN, OR OTHER EMPLOYEE INCENTIVE SCHEME AND THEIR EFFECTS (Continued)

(7) The Exercise Price and Determination Method (Continued)

The method for determining the exercise price of Reserved Share Options is consistent with the method for determining the exercise price of the Share Options Granted for the First Time.

During the period from the date of the announcement on the Share Option Incentive Scheme on 27 November 2020 to the completion of the exercise of share options by the Participants, the exercise price of the share options shall be adjusted accordingly in the event of any capitalization issue, bonus issue, share subdivision or share consolidation, rights issue, issuance of new shares, dividend distribution, etc.

(8) Validity Period

The Validity Period of the Share Option Incentive Scheme shall commence from the date of grant of the share options, and end on the date on which all the share options granted under the Share Option Incentive Scheme have been exercised or cancelled, and shall not be longer than 60 months.

(9) Value and Relevant Accounting Policies of Share Options

1. Value of Share Options

The Company uses Black-Scholes Model (B-S Model) to calculate the fair value of the share options to be granted, and it is predicted that the value of each share option of the Company is RMB2.11 and the total value of share options granted are RMB30,109,700 by using this model. The valuation results of share options here are not used as the basis for accounting treatment. The fair value of share options used to calculate accounting costs will be re-estimated after the actual completion of the grant by collecting real-time market data at the date of grant. Relevant valuation inputs and results are set out in the below table:

Parameter inputs	Parameter values	Definition
Expected volatility	33.00%	Historic volatility in recent 4 years of the Company
Expected dividend rate	0.00%	The Share Option Incentive Scheme to adjust the grant of share options for ex-rights, ex-dividends, etc. on target shares
Risk-free interest rate	2.42%	On linear extrapolation, being the interest rate of the national debt with same expected period as the share options
Expected period	4 years	Expected period = $0.5 \times (\text{weighted expected period} + \text{total Validity Period})$
Exercise price	6.98	Exercise price determined in accordance with the Share Option Incentive Scheme
Share market price	7.05	The closing price of the Company's share on the valuation date
Valuation results	2.11	Share option per share granted based on the calculation of Black-Scholes valuation model

5. Major Events

XIII. THE COMPANY'S SHARE INCENTIVE SCHEME, EMPLOYEE STOCK OWNERSHIP PLAN, OR OTHER EMPLOYEE INCENTIVE SCHEME AND THEIR EFFECTS (Continued)

2. Accounting policies in respect of the Share Options

Pursuant to the "Accounting Standards for Business Enterprises" and their application guidelines, the Company's main accounting principles for granting share options to the Participants are as follows:

- (i) if the equity-settled share-based payment is exchanged for the Participants to provide services, it shall be measured by the fair value of the equity instruments granted to the Participants;
- (ii) for equity-settled share-based payment in exchange for Participants' services after completing the services within the Vesting Period or meeting the prescribed performance conditions, on each balance sheet date within the Vesting Period, based on the best estimate of the number of feasible equity instruments, the services obtained in the current period are included in the relevant asset costs or current expenses according to the fair value of the equity instruments on the date of grant, which are charged in the recurring profit and loss and included in the capital reserve at the same time.

Accounting treatment on the date of grant: since share options cannot be exercised on the date of grant, there is no need to carry out relevant accounting treatment;

Accounting treatment during the Vesting Period: on each balance sheet date during the Vesting Period, based on the best estimate of the number of exercisable share options, according to the fair value of share options on the date of grant, the services obtained in the current period are included in the relevant asset costs or current expenses, and also included in the capital reserve;

Accounting treatment after the exercise date: the confirmed cost and total owner's equity will not be adjusted. On each balance sheet date, the option cost that should be borne in the current period will be amortized;

Accounting treatment for the exercise: share capital and share premium shall be recognized with reference to the actual exercise of the share options, and carry forward the capital reserve confirmed during the Vesting Period.

XIV. MATERIAL CONNECTED TRANSACTIONS

(I) Connected Transactions in the Ordinary Course of Business

1. Connected transactions which have been disclosed in the Company's announcements, but without subsequent progress or changes to their implementation

- a. On 20 January 2020, the Board considered and approved the agreement entered into between the Company and Tianjin Investment Group in respect of the entrustment of conducting the commissioning and trial operation for the Xianyang Road Sewage Water Treatment Plant Relocation and Upgrading Project to the Company by Tianjin Investment Group. The term for conducting the commissioning and trial operation is from the date of completion of relocation and upgrade project of Xianyang Road Sewage Water Treatment Plant to the date of environmental acceptance, totaling 3 months. The fee for conducting the commissioning and trial operation under the agreement is RMB4,697,422.82.

Connected relationship: Tianjin Investment Group is the ultimate controller of the Company.

- b. On 26 March 2020, the Board considered and approved the finance lease agreement (the "Finance Lease Agreement") entered into between Shandong Company (as the lessee), a subsidiary of the Company, and Tianjin City Investment Development and Leasing Co., Ltd. ("Tianjin City Investment Development") (as the lessor), pursuant to which, Shandong Company agreed to sell the assets (excluding the land) for the expansion of the phase I project owned by Tianjin City Investment Development in the PAC in Tancheng, Shandong as the leased assets ("Leased Assets") to Tianjin City Investment Development at a total consideration of not exceeding RMB20,000,000, and Tianjin City Investment Development agreed to leaseback the leased assets to Shandong Company during the 3-year lease period at the total rent of approximately RMB22,992,500, which comprises of (i) the amount of the lease principal in the sum of approximately RMB20,000,000; (ii) the lease interest of approximately RMB2,280,000, to be calculated at the lease rate of 3.8% per annum; (iii) one-off handling fee rate of 3.5625%, that is RMB712,500. Subject to the fulfillment of all the obligations under the Finance Lease Agreement by Shandong Company, upon the expiry of the lease, Shandong Company shall have the right to require Tianjin City Investment Development to sell the ownership of the leased assets back at the consideration of RMB100.

Connected relationship: Shandong Company is a non-wholly-owned subsidiary of the Company. Tianjin City Investment Development is a non-wholly-owned subsidiary of Tianjin Investment Group, the ultimate controller of the Company.

5. Major Events

XIV. MATERIAL CONNECTED TRANSACTIONS (Continued)

(I) Connected Transactions in the Ordinary Course of Business (Continued)

1. Connected transactions which have been disclosed in the Company's announcements, but without subsequent progress or changes to their implementation (Continued)

- c. On 1 June 2020, Jiayuanxing, a wholly-owned subsidiary of the Company, entered into the Cold Supply Agreement with TLP for the provision of cold supply services to TLP at an unit price of RMB64.59 per m². The total service area is 273,486.6 m² and the cold supply service fee amounts to RMB17,664,499.49. In addition, TLP applied to Jiayuanxing to suspend the cold supply service for an area of approximately 89,555.4 m² in 2020. Therefore, TLP is required to pay to Jiayuanxing the additional cold energy loss compensation fees in 2020. The amount of the cold energy loss compensation fees is RMB1,156,876.66, which is calculated by multiplying the above-mentioned suspended cold supply service area with the unit price of RMB64.59 per m² and 20%. The total amount of the service fee and the cold energy loss compensation fee under the Cold Supply Agreement is approximately RMB18,821,376.15.

Connected relationship: Jiayuanxing is a wholly-owned subsidiary of the Company; TLP is an indirect subsidiary of Tianjin Investment Group, the ultimate controller of the Company.

- d. On 30 June 2020, the Company renewed the Zhangguizhuang Sewage Water Treatment Plant Entrusted Operation Agreement with Tianjin Investment Group, pursuant to which the Company shall continue to operate Zhangguizhuang Sewage Water Treatment Plant invested by Tianjin Investment Group for a service period from 1 July 2020 to 31 December 2021. The unit price of service fee is RMB0.98/m³ and the total amount of service fees expected to be not more than RMB129,120,000.

Connected relationship: Tianjin Investment Group is the ultimate controller of the Company.

XIV. MATERIAL CONNECTED TRANSACTIONS (Continued)**(I) Connected Transactions in the Ordinary Course of Business** (Continued)**1. Connected transactions which have been disclosed in the Company's announcements, but without subsequent progress or changes to their implementation** (Continued)

- e. On 30 June 2020, the Company renewed the Zhangguizhuang Sewage Water Treatment Plant Sludge Disposal Centre Entrusted Operation Agreement with Tianjin Investment Group, pursuant to which the Company shall continue to operate and maintain the Zhangguizhuang Sewage Water Treatment Plant Sludge Disposal Centre for Tianjin Investment Group for a service period from 1 July 2020 to 31 December 2021. The service fees include (1) fees for processing the sludge in the sludge disposal centre of RMB156.64 per tonne (including electricity fee of RMB53.40 per tonne); (2) transportation fees of RMB48.00 per tonne; and (3) taxes. The total amount of service fees expected to be not more than RMB18,834,000.

Connected relationship: Tianjin Investment Group is the ultimate controller of the Company.

- f. On 7 August 2020, the Board considered and approved the contract operation agreement on Zhangguizhuang Water Recycling Plant and its supporting water pipe-network assets entered into between Water Recycling Company and Tianjin Investment Group, pursuant to which, Tianjin Investment Group shall contract the operation of the Zhangguizhuang Water Recycling Plant and its supporting water pipe-network assets to Water Recycling Company, while Water Recycling Company shall be responsible for the contract operation of the Zhangguizhuang Water Recycling Plant Project constructed by Tianjin Investment Group, and shall be engaged in the production and sales of recycled water. The operating term of the agreement is effective from 7 August 2020 to 31 December 2021, and the contracting fees to be paid to Tianjin Investment Group are expected to be RMB9,050,000.

Connected relationship: Water Recycling Company is the wholly-owned subsidiary of the Company; Tianjin Investment Group is the ultimate controller of the Company.

5. Major Events

XIV. MATERIAL CONNECTED TRANSACTIONS (Continued)

(I) Connected Transactions in the Ordinary Course of Business (Continued)

1. Connected transactions which have been disclosed in the Company's announcements, but without subsequent progress or changes to their implementation (Continued)

- g. On 10 December 2020, the Board considered and approved the agreement entered into between the Company and Tianjin Investment Group in respect of the entrustment of conducting the commissioning and trial operation for the Dongjiao Sewage Water Treatment Plant and recycling water plant relocation project to the Company by Tianjin Investment Group. The term for conducting the commissioning and trial operation is from the date of completion of relocation project of Dongjiao Sewage Water Treatment Plant and recycling water plant relocation project to the date of environmental acceptance. The fee for conducting the commissioning and trial operation under the agreement is RMB8,381,700.

Connected relationship: Tianjin Investment Group is the ultimate controller of the Company.

According to Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the above-mentioned items (d) and (e) are continuing connected transactions. The independent non-executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that:

- ① the above continuing connected transactions were in the ordinary course of business of the Company;
- ② the above continuing connected transactions were conducted on normal commercial terms; and
- ③ the above continuing connected transactions were carried out in accordance with the terms of the agreements of the relevant transactions, which were fair and reasonable and in the interests of the Company and its shareholders as a whole.

XIV. MATERIAL CONNECTED TRANSACTIONS (Continued)

(I) Connected Transactions in the Ordinary Course of Business (Continued)

1. Connected transactions which have been disclosed in the Company's announcements, but without subsequent progress or changes to their implementation (Continued)

The Board also confirmed that the auditors of the Company had confirmed the matters as set out in Rule 14A.56 of the Listing Rules regarding the above-mentioned continuing connected transactions occurred in 2020, namely items (d) and (e).

2. Connected transactions which have been disclosed in the Company's announcements, with subsequent progress or changes to their implementation

Not applicable

3. Connected transactions which have not been disclosed in the Company's announcements

Not applicable

(II) Connected Transactions as a result of Acquisition, Disposal of Assets or Equity

1. Connected transactions which have been disclosed in the Company's announcements, but without subsequent progress or changes to their implementation

Not applicable

2. Connected transactions which have been disclosed in the Company's announcements, with subsequent progress or changes to their implementation

Not applicable

3. Connected transactions which have not been disclosed in the Company's announcements

Not applicable

5. Major Events

XIV. MATERIAL CONNECTED TRANSACTIONS (Continued)

(II) Connected Transactions as a result of Acquisition, Disposal of Assets or Equity (Continued)

4. Discloseable performance for the reporting period of connected transactions with agreed-upon performance targets

Not applicable

(III) Significant Connected Transactions in Joint External Investment

1. Connected transactions which have been disclosed in the Company's announcements, but without subsequent progress or changes to their implementation

Not applicable

2. Connected transactions which have been disclosed in the Company's announcements, with subsequent progress or changes to their implementation

Not applicable

3. Connected transactions which have not been disclosed in the Company's announcements

Not applicable

(IV) Creditor's Rights and Debts with Related Parties

1. Connected transactions which have been disclosed in the Company's announcements, but without subsequent progress or changes to their implementation

Not applicable

2. Connected transactions which have been disclosed in the Company's announcements, with subsequent progress or changes to their implementation

Not applicable

3. Connected transactions which have not been disclosed in the Company's announcements

Not applicable

XIV. MATERIAL CONNECTED TRANSACTIONS (Continued)

(V) Others

Connected transaction

On 13 July 2020, the Board has approved the proposed issuance of 323,741,007 new A shares (inclusive) to 3 specific target investors (i.e. TMICL, Yangtze Ecological Environmental Protection Group. Co., Ltd.* (長江生態環保集團有限公司) (“**Yangtze Ecology**”) and Three Gorges Capital Holdings Co., Ltd.* (三峽資本控股有限責任公司) (“**Three Gorges Capital**”)) (“**Non-public Issuance of A Shares**”). The issue price of Non-public Issuance of A Shares is RMB5.56/share (“**Issue Price**”). It is expected that the gross proceeds to be raised from the Non-public Issuance of A Shares will not exceed RMB1.8 billion (inclusive), which will be used to repay interest-bearing liabilities and supplement the Company’s working capital after deducting the offering expenses.

As part of the Non-public Issuance of A Shares, the Company entered into the subscription agreement with TMICL on 13 July 2020, pursuant to which TMICL conditionally agreed to contribute RMB200 million in cash to subscribe for 35,971,223 A shares to be issued based on the Non-public Issuance of A Shares according to the Issue Price, accounting for approximately 11.11% of the total number of A shares to be issued under the Non-public Issuance of A Shares (“**TMICL Subscription Agreement**”). Immediately after the completion of the Non-public Issuance of A Shares (assuming that (i) a total of 323,741,007 new A Shares will be issued to TMICL, Yangtze Ecology and Three Gorges Capital under the Non-public Issuance of A Shares, respectively and (ii) there is no other change to the shareholding structure of the Company since 13 July 2020 save for the issuance of the A Shares pursuant to the Non-public issuance of A Shares), TMICL will hold approximately 42.92% of the total issued shares of the Company.

On 28 August 2020, the State-owned Assets Supervision and Administration Commission of the Tianjin Municipal People’s Government agreed with the proposal of the Non-public Issuance of A Shares of the Company in 2020 in principle. On 7 September 2020, the resolutions relating to the Non-public issuance of A Shares were considered and approved by the 2020 first extraordinary general meeting, the 2020 first H shareholders’ class meeting and the 2020 first A shareholders’ class meeting of the Company. The Non-public Issuance of A Shares still remains subject to the approval from the China Securities Regulatory Commission.

5. Major Events

XIV. MATERIAL CONNECTED TRANSACTIONS (Continued)

(V) Others (Continued)

Connected transactions (Continued)

On 30 March 2021, the Board considered and approved the relevant resolutions in relation to the adjustments to the proposed Non-public Issuance of A Shares and the adjustments to the Proposed Introduction of the Strategic Investor Subscription, pursuant to which, the Three Gorges Capital will no longer subscribe for the shares to be issued under the Non-public Issuance of A Shares. Therefore, the adjusted Non-public Issuance of A Shares is intended for 2 target subscribers: Yangtze Ecology and TMICL, and the gross proceeds to be raised by this adjusted Non-public Issuance of A Shares will not exceed RMB1.2 billion (inclusive). There is no amendment and adjustment to any terms and conditions under the TMICL Subscription Agreement. Immediately after the completion of the adjusted Non-public Issuance of A Shares (assuming that (i) a total of 215,827,338 new A Shares will be issued to TMICL and Yangtze Ecology under the Non-public Issuance of A Shares, respectively and (ii) there is no other change to the shareholding structure of the Company since 30 March 2021 save for the issuance of the A Shares pursuant to the adjusted Non-public issuance of A Shares), TMICL will hold approximately 45.74% of the total issued shares of the Company.

For details of the Non-public issuance of A Shares, please refer to the announcements and overseas regulatory announcements of the Company dated 13 July 2020, the circular dated 21 August 2020, the announcement on the resolutions passed at the 2020 first extraordinary general meeting, the 2020 first H shareholders' class meeting and the 2020 first A shareholders' class meeting dated 7 September 2020, the overseas regulatory announcements dated 28 August 2020, 29 September 2020, 30 October 2020, 17 November 2020 and 28 January 2021, and the inside information announcements and related overseas regulatory announcements dated 28 January 2021 and 30 March 2021.

Connected relationship: TMICL is the direct controlling shareholder of the Company.

Saved as disclosed above, there is no related party transaction or continuing related party transaction as set out in the Annual Report 2020 of the Company that falls under the definition of "connected transaction" or "continuing connected transaction" which requires disclosure in Chapter 14A of the Listing Rules. The Company confirms that it has complied with the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules.

XV. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION

(I) Custody, Contracting and Leasing

1. Custody

Not applicable

2. Contracting

Not applicable

3. Leasing

Not applicable

(II) Guarantees

Unit: 0'000 Currency: RMB

Guarantees provided to external parties by the Company (excluding guarantees provided to subsidiaries)	
Total amount of guarantees provided during the reporting period (excluding guarantees provided to subsidiaries)	0
Total balance of guarantees as at the end of the reporting period (A) (excluding guarantees provided to subsidiaries)	0
Guarantees provided to subsidiaries of the Company	
Total amount of guarantees provided to subsidiaries during the reporting period	88,445.56
Total balance of guarantees provided to subsidiaries as at the end of the reporting period (B)	444,985.79
Total amount of guarantees provided by the Company (including guarantees provided to subsidiaries)	
Total amount of guarantees (A+B)	444,985.79
Percentage of the total amount of guarantees to the net assets of the Company (%)	58.69
Of which:	
Amount of guarantees provided to shareholders, ultimate controllers, and their connected parties (C)	0
Amount of guarantees provided directly or indirectly to guaranteed entities with a gearing ratio of over 70% (D)	78,602.37
Total amount of guarantees exceeding 50% of net assets (E)	65,903.64
Total of the above three classes of guarantees (C+D+E)	144,506.01
Explanation on contingent joint liability for undue guarantees	Not applicable
Explanation on guarantees	Nil

5. Major Events

XV. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION (Continued)

(III) Cash Asset Management Entrusted to Others

1. Entrusted wealth management

Not applicable

2. Entrusted loans

Not applicable

3. Others

Not applicable

(IV) Other Material Contracts

Not applicable

XVI. DETAILS OF OTHER MAJOR EVENTS

(I) Sale and Purchase or Redemption of Shares of the Company

During the reporting period, the Company or any of its subsidiaries did not purchase, sell, or redeem any shares of the Company.

(II) Corporate Governance Code

None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not, for any part of the reporting period, in compliance with the Corporate Governance Code under the Listing Rules.

(III) Model Code for Securities Transactions by the Directors

The Company has adopted a code of practice with standards not less exacting than those prescribed in Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules for securities transactions conducted by the Directors. During the reporting period, all Directors complied with the model code in relation to securities transactions conducted by the Directors.

XVI. DETAILS OF OTHER MAJOR EVENTS (Continued)**(IV) Public Float**

On the basis of published information and to the best knowledge of the Directors, the Company has maintained the amount of public float as required under the Listing Rules as at the date of this annual report.

(V) Pre-emptive Rights

There is no provision regarding pre-emptive rights under the Articles of Association of the Company and there is no restriction on such rights under the laws of the PRC.

(VI) Tax Concession

Holders of listed securities of the Company were not granted any tax concession for holding securities of the Company.

(VII) Charge of Assets

For details about charge of assets of the Company, please refer to the financial reports as set out below.

(VIII) Audit Committee

On 31 July 2001, the Board approved the establishment of the Audit Committee which is responsible for reviewing and supervising the financial reporting process and internal control of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including a review of the audited accounts for the year ended 31 December 2020 with the Directors.

5. Major Events

XVII. ACTIVE PERFORMANCE OF SOCIAL RESPONSIBILITY

(I) Poverty Alleviation Work of the Company

1. Targeted Poverty Alleviation Plan

Not applicable

2. Summary of Annual Targeted Poverty Alleviation

- (1) In accordance with the overall arrangement of Tianjin's targeted poverty alleviation work, the total investment capital demand for the assistance projects for Nancaicun Town (南蔡村鎮) government and the projects of the maintenance of the main road and the dredging and renovation of ditches and ponds in Xixiaoliang Village (西小良村) of Nancaicun Town is RMB4.1671 million, which has been paid as scheduled by the Company at the end of reporting period. The assistance funds are subject to special account management and the "fixed sum for fixed purpose" policy, and are to be used in accordance with the principle of "special account accounting and special usage only". Special income and expenditure account will be established individually, and the funds for each village will be accounted for separately. The resident assistance team sent out by Tianjin Investment Group will be responsible for supervising and verifying the usage of assistance funds.
- (2) In accordance with "Implementation Plan for 2020 on Promoting Quality Collaboration in Poverty Alleviation and Support Between the Eastern and Western Regions for Accomplishing Poverty Elimination Tasks On Schedule of Tianjin", the Company donated RMB500,000 to non-profit organizations to support the construction of the assistance regions in Xiqing District of Tianjin and won the appreciation of Red Cross Society of Xiqing District and Special Group for Social Mobilization.
- (3) In response to the poverty alleviation requirements of the Xianning Government, Wuhan Company (the controlling subsidiary of the Company) Xianning Branch targeted poverty alleviation in Lushui Village, Gaotieling Town, Jiayu County, Xianning City in June 2020. It planned to donate RMB100,000 for road paving, ground leveling, and compensation for young crops so as to support the tourism industry in Lushui Village.
- (4) To help fishermen get rid of poverty as soon as possible, more than 1,000 households of more than 2,800 Dahu fishermen in Honghu City moved ashore in different places. The fishermen encountered many difficulties in perspectives such as life, medical care, employment, and children's education. Honghu Government advocated donations and assistance from all sectors of the society. Honghu Capital Water Co., Ltd. (洪湖市創業水務有限公司), the controlling subsidiary of the Company, responded actively and planned to donate RMB100,000 to the Honghu Charity Federation for the purpose of subsequent assistance to fishermen.

XVII. ACTIVE PERFORMANCE OF SOCIAL RESPONSIBILITY (Continued)

(I) Poverty Alleviation Work of the Company (Continued)

3. Achievements in Targeted Poverty Alleviation

Not applicable

4. Subsequent Targeted Poverty Alleviation Plan

Please refer to the above summary of targeted poverty alleviation.

(II) Social Responsibility Work

The Company has disclosed its social responsibility report. For details, please refer to the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) on 26 March 2021.

(III) Environment Information

1. Explanation on environmental protection of the company and its important subsidiaries classified as key pollutant discharging entities as published by environmental protection authorities

(1) Pollutant Discharging

The Company is mainly engaged in the sewage treatment business which is to collect and treat domestic and municipal sewage by removing the main pollutants therein to the extent that the treated sewage meets the discharge standards stipulated by the national or local government, and then discharge the treated sewage to rivers via sewage outfalls as designated after assessment. The advanced treatment of part of the tail water is further performed for reclaimed water supply. According to the aforesaid effluent water quality standards for sewage treatment plants stipulated by the national or local government, the effluent of sewage treatment plants is allowed to contain certain types and amounts of pollutants, mainly comprising chemical oxygen demand (COD), biochemical oxygen demand (BOD), suspended solids (SS), total nitrogen, ammonia nitrogen, total phosphorus, etc. Given the fact that most of sewage treatment projects have a designed capacity of exceeding 20,000 tonnes/day, they are classified as key pollutant discharging entities by local environmental protection authorities.

5. Major Events

XVII. ACTIVE PERFORMANCE OF SOCIAL RESPONSIBILITY (Continued)

(III) Environment Information (Continued)

1. Explanation on environmental protection of the company and its important subsidiaries classified as key pollutant discharging entities as published by environmental protection authorities (Continued)

(1) Pollutant Discharging (Continued)

As at the end of the reporting period, the Company owned 41 sewage treatment projects, each of which has 1 or 2 effluent outfall(s) confirmed by industry competent authorities and experts upon examination and verification. According to the relevant agreements, currently the effluent water quality carried out by most sewage treatment plants is class A specified in the Pollutant Discharge Standards for Urban Wastewater Treatment Plants (DB12/599-2015) of Tianjin and First Grade A under the Pollutant Discharge Standards for Urban Wastewater Treatment Plants (GB18918-2002). The common pollutant indexes requiring basic control include COD, BOD, SS, total nitrogen, ammonia nitrogen, total phosphorus, etc. The following table sets out the maximum allowable discharge concentrations (daily average) of the pollutant indexes requiring basic control.

No.	Pollutant index requiring basic control	National standard – first grade class A	Tianjin local standard – class A
1	COD	50	30
2	BOD	10	6
3	SS	10	5
4	Animal & plant oil	1	1
5	Petroleum	1	0.5
6	Anion surfactant	0.5	0.3
7	Total nitrogen (N)	15	10
8	Ammonia nitrogen (N)	5(8)	1.5(3)
9	Total phosphorus (P)	Constructed before 31 December 2005	0.3
		Constructed after 1 January 2006	0.3
10	Chroma (dilution multiple)	30	15
11	PH	6-9	
12	Number of fecal coliforms/L	1000	1000

XVII. ACTIVE PERFORMANCE OF SOCIAL RESPONSIBILITY (Continued)

(III) Environment Information (Continued)

1. Explanation on environmental protection of the company and its important subsidiaries classified as key pollutant discharging entities as published by environmental protection authorities (Continued)

(1) *Pollutant Discharging* (Continued)

During the reporting period, the discharge concentrations of the major pollutant indexes requiring basic control of the Company's sewage treatment business were all below the above standards. In aggregate, the COD, BOD, SS, total nitrogen, ammonia nitrogen, and total phosphorus discharged by the Company during the reporting period were approximately 22,600 tonnes, 9,200 tonnes, 5,500 tonnes, 11,700 tonnes, 2,200 tonnes, and 300 tonnes, respectively. In aggregate, environmental pollutants, namely, the COD, BOD, SS, total nitrogen, ammonia nitrogen, and total phosphorus, were eliminated by approximately 409,000 tonnes, 209,000 tonnes, 288,000 tonnes, 76,500 tonnes, 48,000 tonnes, and 9,000 tonnes, respectively, representing a significant contribution to water environmental governance.

(2) *Construction and operation of pollution prevention facilities*

During the reporting period, the sewage treatment projects operated by the subsidiaries of the Company strictly complied with the relevant emission standards with all the effluent water quality, odor, noise, and solid emission meeting the requirements. The projects' operation was also in normal condition. The construction of the sewage treatment facilities followed the relevant construction procedures and quality standards and proceeded normally.

(3) *Environmental Impact Assessment of Construction Projects and Other Administrative Permissions for Environmental Protection*

All the Company's sewage treatment projects in operation have gone through the relevant EIA procedures and obtained approvals and environmental acceptance upon construction completion from the competent environmental authorities.

(4) *Emergency Plans for Sudden Environmental Incidents*

During the reporting period, all key pollutant discharge entities of the Company's sewage treatment business prepared the "Environmental Emergency Response Plan for Sewage Treatment Plants" with reference to the "Interim Measures for the Administration of Environmental Emergency Response Plan", and the plan was approved by and filed with the local environmental protection bureau.

5. Major Events

XVII. ACTIVE PERFORMANCE OF SOCIAL RESPONSIBILITY (Continued)

(III) Environment Information (Continued)

1. Explanation on environmental protection of the company and its important subsidiaries classified as key pollutant discharging entities as published by environmental protection authorities (Continued)

(5) *Environmental Self-monitoring Program*

During the reporting period, all key pollutant discharge entities of the Company's sewage treatment business carried out environmental self-monitoring in accordance with the relevant requirements of the government. At the beginning of each year, each entity prepares the "Environmental Self-monitoring Program" for the year based on the actual situation. The monitoring program mainly specifies the monitoring items, monitoring points, monitoring methods, monitoring frequency, analysis methods, etc. The monitoring results are publicized on the local environmental information monitoring platform. Each entity will also file the self-monitoring program and adjustments and changes with the local environmental protection bureau in a timely manner.

(6) *Other environmental information that should be disclosed*

Not applicable

2. Description of environmental information of companies other than those classified as key pollutant discharge entities

Not applicable

3. Explanation of reasons for non-disclosure of environmental information of companies other than those classified as key pollutant discharge entities

Not applicable

4. Description of follow-up progress or changes in the disclosure of environmental information during the reporting period

In 2018, the Xiqing District Environmental Protection Bureau, Dongli District Environmental Protection Bureau and Beichen District Environmental Protection Bureau imposed penalty as Xiangyang Road sewage treatment plant, Dongjiao sewage treatment plant and Beicang sewage treatment plant did not meet the class A standard (see annual report 2019 of the Company). During the reporting period, the aforesaid penalties have been revoked after communicating with the relevant government departments.

(IV) Other explanations

Not applicable

XVIII. CONVERTIBLE BONDS

Not applicable

6. Details of Changes in Ordinary Shares and Shareholders

I. CHANGES IN ORDINARY SHARE CAPITAL

(I) Changes in Ordinary Shares

During the reporting period, there were no changes in the total number of ordinary shares and the structure of share capital of the Company.

(II) Changes in Restricted Shares

Not applicable

II. ISSUE AND LISTING OF SECURITIES

(I) Issue of Securities as at the End of the Reporting Period

Unit: Share Currency: RMB

Types of stock and its derivative securities	Date of issue	Issue price (or interest rate)	Volume of issue	Listing date	Authorized trading volume in respect of the listing	Date of termination of trading
<i>Convertible corporate bonds, bonds with warrants, debentures</i>						
Corporate bonds	25 October 2016	0.0313	7,000,000	-	-	25 October 2021
Corporate bonds	26 April 2018	0.0517	11,000,000	-	-	26 April 2023

Explanation on the issue of securities as at the end of the reporting period (for bonds with different interest rates during the terms, please specify separately):

For details, please refer to “9. Relevant Details of Corporate Bonds” in this annual report.

(II) Changes in the Total Number of Ordinary Shares of the Company and Shareholder Structure and the Company's Assets and Liabilities Structure

Not applicable

(III) Existing Employee Shares

Not applicable

6. Details of Changes in Ordinary Shares and Shareholders

III. DETAILS OF SHAREHOLDERS AND ULTIMATE CONTROLLER

(I) Total number of shareholders

Total number of ordinary shareholders as at the end of the reporting period	68,658
Total number of ordinary shareholders as at the end of the previous month before the disclosure date of the annual report	67,369
Total number of shareholders of preferred shares whose voting rights have been restored as at the end of the reporting period	Not applicable
Total number of shareholders of preferred shares whose voting rights have been restored at the end of last month prior to the date on which the annual report shall be disclosed	Not applicable

Note: The total numbers of shareholders above represent the sum of holders of A Shares and H Shares. The total number of ordinary shareholders as at the end of the reporting period is 68,658, among which 66 are holders of H Shares. The total number of ordinary shareholders as at the end of the previous month before the disclosure date of the annual report is 67,369, among which 64 are holders of H Shares.

(II) Shareholdings of the Top Ten Shareholders and the Top Ten Shareholders of Circulating Shares (or Shareholders of Non-Restricted Shares) at the End of the Reporting Period

Unit: Share

Name of shareholder	Shareholdings of the top ten shareholders						
	Increase/ decrease during the reporting period (shares)	Number of shares held at the end of the period (shares)	Percentage (%)	Number of restricted shares held (shares)	Status	Pledged or frozen Number (shares)	Nature of the Shareholder
TMICL	0	715,565,186	50.14	0	None	–	State-owned legal person
HKSCC Nominees Limited	18,000	337,892,810	23.67	0	Unknown	–	Others
Central Huijin Asset Management Co., Ltd.	0	14,169,800	0.99	0	None	–	State-owned legal person
Hong Kong Securities Clearing Company Limited	3,795,368	8,705,956	0.61	0	None	–	Others
Zhejiang Jinxin Construction Engineering Co., Ltd. (浙江錦鑫建設工程有限公司)	2,809,300	6,209,800	0.44	0	None	–	Domestic non-state-owned legal person
Hou Hongyan (侯紅燕)	1,750,000	1,750,000	0.12	0	None	–	Domestic natural person
Huang Yizhu (黃移珠)	1,540,332	1,540,332	0.11	0	None	–	Domestic natural person
Huang Qiangsheng (黃強勝)	1,507,100	1,507,100	0.11	0	None	–	Domestic natural person
Shenyang Railway Coal Group Co., Ltd. (瀋陽鐵道煤炭集團有限公司)	0	1,500,000	0.11	0	None	–	State-owned legal person
Huang Liantu (黃聯土)	1,347,500	1,347,500	0.09	0	None	–	Domestic natural person

III. DETAILS OF SHAREHOLDERS AND ULTIMATE CONTROLLER (Continued)

(II) Shareholdings of the Top Ten Shareholders and the Top Ten Shareholders of Circulating Shares (or Shareholders of Non-Restricted Shares) at the End of the Reporting Period (Continued)

Name of shareholder	Shareholdings of the top ten shareholders of non-restricted circulating shares		
	Number of non-restricted circulating shares held	Type	Number
TMICL	715,565,186	Ordinary RMB Shares	715,565,186
HKSCC Nominees Limited	337,892,810	Overseas listed Foreign Shares	337,892,810
Central Huijin Asset Management Co., Ltd.	14,169,800	Ordinary RMB Shares	14,169,800
Hong Kong Securities Clearing Company Limited	8,705,956	Ordinary RMB Shares	8,705,956
Zhejiang Jinxin Construction Engineering Co., Ltd. (浙江錦鑫建設工程有限公司)	6,209,800	Ordinary RMB Shares	6,209,800
Hou Hongyan (侯紅燕)	1,750,000	Ordinary RMB Shares	1,750,000
Huang Yizhu (黃移珠)	1,540,332	Ordinary RMB Shares	1,540,332
Huang Qiangsheng (黃強勝)	1,507,100	Ordinary RMB Shares	1,507,100
Shenyang Railway Coal Group Co., Ltd. (瀋陽鐵道煤炭集團有限公司)	1,500,000	Ordinary RMB Shares	1,500,000
Huang Liantu (黃聯土)	1,347,500	Ordinary RMB Shares	1,347,500

Notes on the connected relationship or parties acting in concert among the above shareholders

It is not certain whether there is any connected relationship among the top 10 shareholders.

It is not certain whether there is any connected relationship between the top 10 shareholders of non-restricted circulating shares and the top 10 shareholders.

Notes: (1) According to the register of members as provided by HKSCC Nominees Limited, those H shares held by it were held on behalf of various clients. As at the end of reporting period, Ningbo BSLS Trade Co., Ltd.*(寧波百思樂斯貿易有限公司) and its concert parties Ningbo Ningdian Investment Development Co., Ltd.*(寧波寧電投資發展有限公司) and LVNENG Investment & Development Co., Ltd. (Hong Kong) held a total of 93,798,000 H shares of the Company, representing 6.572% of the total share capital of the Company, and none of the shares were pledged.

(2) The top ten shareholders are not strategic investors of the Company.

(III) Strategic Investors or General Legal Persons Becoming the Top Ten Shareholders Due to Placing of New Shares

Not applicable

6. Details of Changes in Ordinary Shares and Shareholders

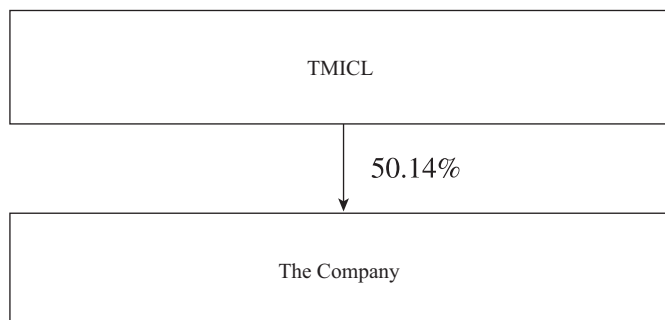
IV. CHANGES IN THE CONTROLLING SHAREHOLDER AND THE ULTIMATE CONTROLLER

(I) Controlling Shareholder

1 Legal person

Name	TMICL
Head of the entity or legal representative	Gu Wenhui
Date of incorporation	20 January 1998
Principal operations	Investment, operation and management of commerce, service industry, real estate industry, city infrastructure, road construction and auxiliary facilities with internal funds; property management; leasing of self-owned housing; corporation management and consultation (for the above business covering the industry license, operating with the license within the validity period; for specific projects and operations, in accordance with the State regulations) (projects subject to approval according to law may be operated upon the approval of relevant departments).
The shareholdings of other domestic and foreign listed companies in which the company has controlling interests and has invested during the reporting period	Nil
Notes on other information	Nil

2 Flowchart on the shareholding interests and relationship of control between the Company and its controlling shareholder



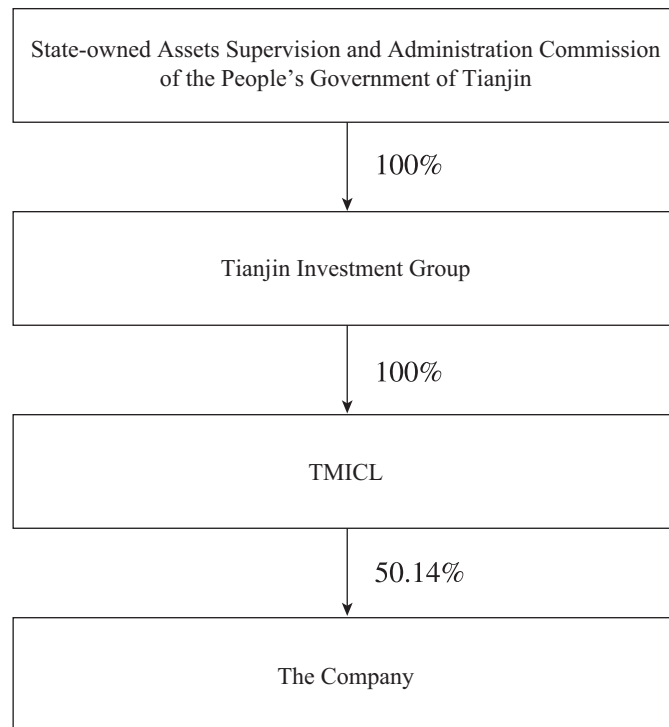
IV. CHANGES IN THE CONTROLLING SHAREHOLDER AND THE ULTIMATE CONTROLLER (Continued)

(II) Details of Ultimate Controller

1 Legal person

Name	State-owned Assets Supervision and Administration Commission of the People's Government of Tianjin
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2 Flowchart on the equity interests and relationship of control between the Company and its ultimate controller



V. OTHER LEGAL PERSON SHAREHOLDERS HOLDING MORE THAN 10% OF THE SHARES

As at the end of the reporting period, there were no other legal person shareholders holding more than 10% of the shares of the Company.

VI. DESCRIPTION OF RESTRICTION ON DECREASE OF SHAREHOLDINGS

Not applicable

6. Details of Changes in Ordinary Shares and Shareholders

VII. SUBSTANTIAL SHAREHOLDERS INTERESTS

- (a) As at 31 December 2020, so far as is known to or can be ascertained after reasonable enquiries by the Directors, Supervisors or chief executive of the Company, the following entities (other than the Directors, Supervisors or chief executive of the Company) had an interest or short position in the shares or underlying shares (including options) of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the “SFO”):

Name of shareholder	Capacity	Number and class of securities (Note)	Approximate percentage of the relevant class of securities	Approximate percentage of the total issued share capital of the Company
TMICL	Beneficial owner	715,565,186 A Shares (L)	65.82%	50.14%
Ningbo Development Investment Group Limited Company*(寧波開發投資集團有限公司)	Interest of controlled corporation	92,500,000 H Shares (L)	27.20%	6.48%
Ningbo Thermal Power Co., Ltd.*(寧波熱電股份有限公司)	Interest of controlled corporation	92,500,000 H Shares (L)	27.20%	6.48%
Ningbo Ningdian Investment Development Co., Ltd.*(寧波寧電投資發展有限公司)	Beneficial owner	48,472,000 H Shares (L)	14.25%	3.40%
Ningbo BSLS Trade Co., Ltd.*(寧波百思樂斯貿易有限公司)	Beneficial owner	44,834,000 H Shares (L)	13.19%	3.14%
ISIS Asset Management Plc	Investment manager	17,286,000 H Shares (L)	5.08%	1.21%

Note: The letter “L” represents the person’s long position in the shares. The letter “S” represents the person’s short position in the shares.

- (b) Save as disclosed above, there is no other person (other than the Directors, Supervisors or chief executive of the Company) so far as is known to the Directors, Supervisors or chief executives of the Company who, as at 31 December 2020, had an interest or short position in the shares or underlying shares (including options) of the Company which would fall to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or had, directly or indirectly, interested in 5% or more of nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

7. Directors, Supervisors, Senior Management and Employees

I. CHANGES IN SHAREHOLDINGS AND THE REMUNERATION

(I) Changes in shareholdings and the remuneration of the existing and resigned Directors, Supervisors, and senior management during the reporting period

Name	Position held (note)	Gender	Age	Appointment date	Termination date	No. of shares held at the beginning of the year (shares)	No. of shares held at the end of the year (shares)	Changes in number of shares for the year	Reason for changes	Aggregate pre-tax remunerations received from the Company during the reporting period (RMB: 0'000)	Whether remuneration was received from related parties of the Company
Liu Yujun	Executive Director, Chairman	M	55	13 March 2015	17 December 2021	0	0	0	No change	108.91	No
Wang Jing	Executive Director	F	50	18 December 2018	17 December 2021	0	0	0	No change	80.90	No
Niu Bo	Executive Director	M	44	18 December 2018	17 December 2021	0	0	0	No change	71.04	No
	Secretary of the Board			29 January 2016	17 December 2021						
Gu Wenhui	Non-executive Director	M	44	13 May 2020	17 December 2021	0	0	0	No change	0	Yes
Si Xiaolong	Non-executive Director	M	44	18 December 2018	17 December 2021	0	0	0	No change	0	Yes
Wang Xiangfei	Independent non-executive Director	M	68	18 December 2015	17 December 2021	0	0	0	No change	22.00	No
Guo Yongqing	Independent non-executive Director	M	46	18 December 2015	17 December 2021	0	0	0	No change	22.00	No
Di Xiaofeng	Independent non-executive Director	M	59	18 December 2018	17 December 2021	0	0	0	No change	22.00	No
Lu Hongyan	Supervisor	F	51	17 May 2017	17 December 2021	0	0	0	No change	72.74	No
	Chairwoman of the Supervisory Committee			18 December 2018	17 December 2021						
Wu Baolan	Supervisor	F	52	24 August 2011	17 December 2021	0	0	0	No change	50.55	No
Niu Jing	Supervisor	F	50	18 December 2015	17 December 2021	0	0	0	No change	49.58	No
Li Zongqiang	Supervisor	M	50	18 December 2012	17 December 2021	0	0	0	No change	0	Yes
Shen Yue	Supervisor	F	45	18 December 2018	17 December 2021	0	0	0	No change	48.99	No
Huang Lan	Supervisor	F	49	18 December 2018	17 December 2021	0	0	0	No change	39.98	No
Li Yang	General Manager	M	51	8 February 2021	17 December 2021	0	0	0	No change	93.92	No
	Former Deputy General Manager			15 March 2017	8 February 2021						
Zhao Yi	Deputy General Manager	M	50	18 October 2010	17 December 2021	0	0	0	No change	82.22	No
Zhang Jian	Deputy General Manager	M	51	17 January 2012	17 December 2021	822	822	0	No change	81.69	No
Li Jinhe	Deputy General Manager	M	50	29 August 2017	17 December 2021	0	0	0	No change	81.80	No
	Chief engineer			1 January 2020	17 December 2021						
Zhao Mingwei	Deputy General Manager	M	40	8 February 2021	17 December 2021	0	0	0	No change	0	No
Peng Yilin	Chief Accountant	F	40	29 January 2016	17 December 2021	0	0	0	No change	81.73	No
Yu Zhongpeng	Former Non-executive Director	M	41	15 May 2018	21 April 2020	0	0	0	No change	0	Yes
Han Wei	Former Non-executive Director	M	43	15 May 2018	27 August 2020	0	0	0	No change	0	Yes
Tang Fusheng	Former General Manager	M	47	26 January 2017	8 February 2021	0	0	0	No change	95.32	No
Fu Yana	Former Deputy General Manager	F	50	18 December 2012	23 March 2020	0	0	0	No change	72.36	No
Zhang Qiang	Former Deputy General Manager	M	57	5 March 2009	11 September 2020	0	0	0	No change	71.89	No
Qi Lipin	Former Chief Economist	F	43	29 October 2015	23 March 2020	0	0	0	No change	73.32	No
Total	/	/	/	/	/	822	822	0	/	1,322.94	/

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Liu Yujun	Mr. Liu is now the investment director of Tianjin Investment Group and the chairman of the Company. Mr. Liu was the chief accountant of Tianjin No. 4 Municipal Engineering Company from December 1996 to August 2000; the chief accountant of Tianjin Metro General Company from August 2000 to October 2007; the deputy general manager and the chief accountant of Tianjin City Metro Group from October 2007 to November 2008; the deputy chief accountant of Tianjin Investment Group and the deputy general manager and the chief accountant of Tianjin City Metro Group from November 2008 to April 2011; the deputy chief accountant of Tianjin Investment Group, the deputy general manager and chief accountant of Tianjin City Metro Group and the secretary of the party branch, the chairman of the board, and the general manager of Tianjin Metro Resources Investment from April 2011 to April 2013. He has been the deputy chief accountant of Tianjin Investment Group from April 2013 to December 2019; the general manager, secretary of the party general branch, and director of Tianjin Haihe Jinan Investment Construction Development Co., Ltd. from January 2014 to March 2015; and the investment director of Tianjin Investment Group since December 2019. Mr. Liu has been a Director and the chairman of the Company since 13 March 2015.
Wang Jing	Ms. Wang is now a Director and the deputy secretary of the Communist Party Committee and chairwoman of the labour union of the Company. Ms. Wang served as the deputy director, director, and minister of the administration department of Tianjin Municipal Construction Group Co. Ltd. (天津市政建設集團) from June 2007 to December 2010; served as a party branch member, deputy secretary, secretary of the party general branch, chairwoman of the labour union, and director of Tianjin Ziya Circular Economy Industrial Investment and Development Co., Ltd. (天津子牙循環經濟產業投資發展有限公司) from December 2010 to July 2016; acted as a member of the management committee, deputy secretary, deputy director of Tianjin Ziya Circular Economy Industrial District (天津子牙循環經濟產業區) from September 2012 to July 2016; Ms. Wang has been serving as the deputy secretary of the Communist Party Committee and chairwoman of the labour union of the Company since August 2016. Ms. Wang served as the staff representative Supervisor and the chairwoman of the Supervisory Committee of the Company from 24 November 2016 to 17 December 2018. Ms. Wang has been serving as a Director of the Company since 18 December 2018.
Niu Bo	Mr. Niu is now a Director and the secretary of the Board of Directors of the Company, the director of the Office of Corporate Governance and the chairman of Hong Kong Company. Mr. Niu joined the Company in August 2004, and from then to December 2009, he acted as the project manager and deputy department manager of the market development department and the department manager of the strategic investment department of the Company. He was the deputy chief economist of the Company from December 2009 to December 2019. He has concurrently served as the chairman of Hong Kong Company since February 2015. Mr. Niu has been the secretary of the Board of the Company since 29 January 2016. Mr. Niu has been a Director of the Company since 18 December 2018.
Gu Wenhui	Mr. Gu is now a Director of the Company and the general manager of the enterprise management department of Tianjin Investment Group, and concurrently serves as the secretary of the party general branch, chairman and general manager of TMICL. From July 2003 to January 2010, Mr. Gu worked at the Company as the deputy director and director of the board secretariat, the manager of the enterprise planning department and the chief economist. Since January 2010, Mr. Gu has worked at Tianjin Investment Group and successively served as the deputy director of the financing and development department, the deputy director and director of the asset operation department, the director of the office of the board (enterprise planning department), the director of the enterprise management department (office of the board) and the general manager of the enterprise management department (director of the office of the board). Since November 2014, he has concurrently served as the director of Tianjin Investment Group. Since November 2016, he has concurrently served as the director of Tianjin Municipal Investment Property Investment and Development Co., Ltd. (天津城投置地投資發展有限公司). Since April 2020, he has concurrently served as the secretary of the party general branch, chairman and general manager of TMICL. Mr. Gu Wenhui has been a Director of the Company since 13 May 2020.
Si Xiaolong	Mr. Si is now a Director of the Company, and the deputy general manager of the enterprise management department and the head of the office of the board of Tianjin Investment Group and concurrently serves as a director of Guokong Jincheng. Mr. Si graduated from the School of Management of Tianjin University with a master degree in business administration. He had worked for Tianjin Road Pipe Network Supporting Construction Investment Limited (天津道路管網配套建設投資有限公司). He joined Tianjin Investment Group in April 2009, engaging in asset management, corporate governance, and other work for a long term. He served as the deputy head of the office of the board of Tianjin Investment Group from July 2016 to December 2019 and acted as the deputy director of the enterprise management department of Tianjin Investment Group from March 2018 to December 2019. Mr. Si has been the deputy general manager of the enterprise management department and the deputy director of the office of the board of Tianjin Investment Group since December 2019, and he has been concurrently serving as a director of Guokong Jincheng from October 2018 and the head of the office of the board of Tianjin Investment Group since March 2021. Mr. Si Xiaolong has been a Director of the Company since 18 December 2018.

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Wang Xiangfei	Mr. Wang is now an independent non-executive Director of the Company, the financial advisor of China Sonangol International Holding Limited, and an executive director of Nan Nan Resources Enterprise Limited. Mr. Wang is a senior accountant who graduated from Renmin University of China, majoring in finance and received a bachelor degree in economics. He also held the senior management position with several companies engaging in banking and other financial services. He was the independent non-executive director of China CITIC Bank Co., Ltd., SSEC Media Group Limited, Chongqing Iron and Steel Company Limited, and Shandong Chenming Paper Holdings Limited and an internal supervisor of Shenzhen Rural Commercial Bank Limited, and was the independent non-executive Director of the Company from April 2002 to April 2008. Mr. Wang Xiangfei has been an independent non-executive Director of the Company since 18 December 2015.
Guo Yongqing	Mr. Guo is a post-doctorate, professor in accounting, and certified public accountant in the PRC. Mr. Guo is now an independent non-executive Director of the Company and an accounting professor of the Shanghai National Accounting Institute, and concurrently serving as an independent director of Yango Group Co., Ltd., Chongqing Porton Pharmacy Science & Technology Co., Ltd. and Ribo Fashion Group Co., Ltd. Mr. Guo has been the department head of Shanghai National Accounting Institute. Mr. Guo has been an independent non-executive Director of the Company since 18 December 2015.
Di Xiaofeng	Mr. Di is now a partner of the Commerce & Finance Law Offices in Beijing and an independent non-executive Director of the Company. Mr. Di received a bachelor degree of law from Peking University in 1983 and a master degree of law from the Chinese Academy of Social Sciences in 1986. From September 1986 to February 1988, he worked for the law department of the China Council for the Promotion of International Trade, specializing in legal affairs. From March 1988 to April 1992, he worked as a full-time lawyer for the China Legal Affairs Centre under the supervision of the Ministry of Justice of the PRC. Mr. Di was qualified as a solicitor in 1989. Mr. Di was the independent non-executive Director of the Company from April 2008 to April 2014 and has been the independent non-executive Director of the Company since 18 December 2018.
Lu Hongyan	Ms. Lu obtained a doctoral degree in laws from Nankai University. She is the chairwoman of the Supervisory Committee, the general counsel and the director of the enterprise management center of the Company. Ms. Lu served in Tianjin Winners Law Firm (天津金諾律師事務所) and Tianjin Hongyi Law Firm (天津泓毅律師事務所) consecutively from January 2001 to December 2009 as a lawyer. She joined the Company in January 2010 and served as a legal specialist, and has been the general counsel of the Company since January 2016. She is responsible for the legal affairs of the Company. Ms. Lu has rich legal experience in economic and corporate governance. Ms. Lu has been a Supervisor of the Company since 17 May 2017 and the Chairwoman of the Supervisory Committee of the Company since 18 December 2018.
Wu Baolan	Ms. Wu is now a Supervisor of the Company and the head of the party-masses department of the Company. Ms. Wu joined the Company in December 2000 as the assistant to the general manager of the human resource department of the Company. Ms. Wu was the director of office of Rijiyuan Company under TMICL from December 2004 to December 2005. Ms. Wu joined the Company again in December 2005, and acted as the vice head of the party-masses department of the Company, the Chairwoman of the institutional labour union of the Company, and the head of the party-masses department of the Company. Ms. Wu has been elected as the Supervisor on behalf of the Company's staff since 24 August 2011.
Niu Jing	Ms. Niu is now a Supervisor of the Company, the deputy director of the corporate governance center and an assistant accountant. Ms. Niu Jing graduated from Tianjin University of Finance and Economics in 1993, majoring in finance. She worked as an accountant in Tianjin Xianda Hotel (天津先達酒店) from 1993 to 1995; worked as the financial controller in Tianjin Shandong McDonald's Food Co., Ltd. (天津山東麥當勞食品有限公司) from 1995 to 2002; and worked as the financial manager and internal control manager of Tianjin Jiafu Commercial Co., Ltd. (天津家福商業有限公司) from 2002 to 2009. She joined the Company since July 2009 and served as the manager of the legal and audit department of the Company since then. Ms. Niu has been a Supervisor of the Company since 18 December 2015.

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Li Zongqiang	Mr. Li is now an accountant. Mr. Li now serves as the Supervisor of the Company, the director of the risk management department of TMICL, and concurrently serves as the Secretary of the party sub-branch and chairman of Tianjin Municipal Investment Construction and Engineering Management Consulting Co., Ltd. (天津城投建設工程管理諮詢有限公司) Mr. Li graduated from Tianjin University of Finance and Economics, majoring in accounting and received a bachelor degree in economics. He is a certified public accountant, a registered tax advisor, and a registered asset appraiser. He had worked for Tianjin Jinhua Accounting Firm (天津津華會計師事務所) and Tianjin Jiwei Accounting Firm (天津吉威會計師事務所). He joined TMICL in 2007, and successively served as the deputy manager of finance department, the chief accountant of Wanning Kaide Investment Company (萬寧凱德投資公司), the financial director of Yuanyicheng Business Operations Management Company (元易誠商業運營管理公司), and other positions, engaging in financial auditing and management for a long term. He has acted as the deputy director of the risk management department of TMICL since April 2017, the head of the risk management department of TMICL since January 2019. Mr. Li Zongqiang has been a Supervisor of the Company since 18 December 2018.
Shen Yue	Ms. Shen is now a senior economist and a Supervisor and the head of the organizational department under the Communist Party Committee of the Company. Ms. Shen graduated from Nankai University with a master degree in laws. She joined the Company in 2006, and worked in the party-mass work department. From January 2011 to May 2018, she successively served as the assistant to head and the deputy director of the party-mass work department of the Company, and also acted as the secretary of the first party general branch. Since January 2014, she has served as the deputy director of the party-mass work department of the Company and from November 2016, she was appointed as the deputy director of the party-mass work Department of the Company and was appointed as the head of the organizational department under the Communist Party Committee of the Company from October 2018. Ms. Shen has been a Supervisor of the Company since 18 December 2018.
Huang Lan	Ms. Huang is now a supervisor of the Company, and deputy director and deputy secretary of the party sub-branch of Beicang sewage treatment plant. Ms. Huang joined the preparatory office of the Haihe river basin wastewater treatment project of the Company in March 2002 and has been the director of the general office of the Xianyang Road sewage treatment plant of the Company since March 2005. She has successively served as the deputy director and the director of the general office of the Tianjin water business division of the Company since December 2009. She has been the director of the general office of the Company's branch company for water services since January 2016 and has concurrently served as the secretary of the 4th institutional party branch of the Company since June 2016. She has been the deputy manager of the operation management department and the secretary of the 4th institutional party branch of the Company since April 2017. Since May 2020, she has been the deputy director and deputy secretary of the party sub-branch of Beicang sewage treatment plant. Ms. Huang has been the staff representative supervisor of Company since 18 December 2018.
Li Yang	Mr. Li is now the general manager of the Company, the general manager of the Northwest Region Branch and the East China Region Branch, and the chairman of Xi'an Company and Hangzhou Company. From November 2005 to April 2009, he was the general manager of Fuyang Company, the wholly-owned subsidiary of the Company. From April 2009 to December 2009, he was the general manager of the 2nd water operation branch of the Company. He was the general manager of the eastern region of Tianjin water business division from January 2010 to February 2011 and was the general manager of Xi'an Company since February 2011 to May 2017. Mr. Li was appointed as the assistant to general manager of the Company since January 2012, and as the Chairman of Xi'an Company since September 2015. Mr. Li Yang was a Supervisor of the Company from 8 September 2009 to 15 March 2017. Since 15 March 2017, Mr. Li has served as the deputy general manager of the Company and since September 2020, he has concurrently served as the chairman of Hangzhou Company. Mr. Li has been the general manager of the Company since February 2021.
Zhao Yi	Mr. Zhao is now the deputy general manager of the Company. From August 2005 to March 2009, Mr. Zhao held the positions of the general manager of Qujing Company and Caring Company, subsidiaries of the Company. He was the deputy general manager of Tianjin Beiyangyuan Investment Development Co., Ltd. from April 2009 to October 2010. He concurrently acted as the chairman of eight controlling subsidiaries under the non-local business division from November 2010 to September 2015. At the same time, he concurrently served as the general manager of the non-local water business division of the Company from November 2010 to January 2016. Mr. Zhao has been the deputy general manager of the Company since 18 October 2010.
Zhang Jian	Mr. Zhang is now the deputy general manager of the Company. From April 2006 to December 2009, Mr. Zhang was the administrative deputy general manager (presiding over the work) of Hangzhou Company. He has been the general manager of the non-local water business division of the Zhejiang region and the general manager of Hangzhou Company since December 2009. He has been the chairman of Hangzhou Company, and the director and chairman of Baoying Company since September 2015. He has been the deputy general manager of the Company since January 2012.

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Li Jinhe	Mr. Li is now the deputy general manager and the chief engineer of the Company and also the chairman of Caring Company and a senior engineer. He holds a master of engineering degree. Mr. Li graduated from the department of environmental engineering of Hebei University of Science and Technology in 1993 majoring in environmental engineering, and got a master degree from the department of civil engineering of Tianjin University in 1999 majoring in environmental engineering. Mr. Li has served in the 9th design institute of North China Municipal Engineering Design & Research Institute Co., Ltd. since March 1999 and acted successively as the technician, leader of the 2nd Process Group, deputy chief engineer, and chief engineer as well as the deputy chief engineer. Mr. Li has been engaged in municipal engineering design and research works for years and has extensive experience in such fields as water treatment facilities and designing, research and operation of process. Mr. Li has been the chief engineer of the Company since 29 August 2017 and the deputy general manager of the Company since 1 January 2020.
Zhao Mingwei	Mr. Zhao is now the deputy general manager and senior engineer of the Company. He graduated from the College of Architecture and Civil Engineering of Beijing University of Technology with a master degree in architecture and civil engineering. Mr. Zhao worked as an engineer at the Beijing Design and Consulting Branch of China Northeast Municipal Engineering Design & Research Institute from August 2004 to August 2009. Mr. Zhao worked as the assistant to the president and the director of the Engineering Department at the Beijing Design and Consulting Branch of China Northeast Municipal Engineering Design & Research Institute from August 2009 to April 2013. Mr. Zhao served as the deputy director of the Environmental Design Institute of Beijing Architectural Engineering & Design Co., Ltd. from April 2013 to May 2014. Mr. Zhao served as the general manager of the review department of the technical center under Beijing Enterprises Water Group Limited from May 2014 to March 2017. Mr. Zhao served as the director of the North Region of Beijing Enterprises Water Group Limited from March 2017 to June 2020. Since June 2020, Mr. Zhao has served as the deputy general manager of the Tianjin-Hebei Business Region under the North Region of Beijing Enterprises Water Group Limited. Mr. Zhao has been the deputy general manager of the Company since February 2021.
Peng Yilin	Ms. Peng is now the chief accountant and director of the financial management center of the Company. From March 2008 to September 2015, she successively acted as the assistant department head of the financing development department and the financial central manager, of Tianjin Investment Group. Ms. Peng has been the assistant general manager of the Company since 29 October 2015, the chief accountant of the Company since 29 January 2016, a Director of the Company from 16 March 2016 to 17 December 2018 and concurrently a director of TMICL since 28 December 2020.
Yu Zhongpeng	Mr. Yu graduated from the School of Economics under Nankai University with a master degree in economics and served as a Director of the Company during the reporting period. From July 2004 to July 2007, Mr. Yu Zhongpeng worked for the development department of Tianjin Expressway Investment & Construction Development Corporation (天津高速公路投資建設發展公司). From July 2007 to August 2016, he worked for Tianjin Investment Group and successively served as the assistant to head, deputy head, and head of the Financing & Development Department and the deputy manager of the finance centre, during which he temporarily served as the assistant to the director of office of the Tianjin Municipal Infrastructure Project Financing Leading Group. From August 2016, he served as the secretary of party general branch, chairman, and general manager of TMICL. From January 2018, he temporarily served as the member and deputy secretary of the party leadership group of the fourteenth session of the Communist Youth League of Tianjin. Mr. Yu Zhongpeng has been concurrently a Director of Tianjin City Investment Development and Leasing Co., Ltd. since January 2016, and a member of the Investment Committee of Tianjin Juncheng Industrial-financial Equity Investment Fund Partnership (L.P.) since January 2018. He has been concurrently serving as the director and vice chairman of AECOM (Tianjin) Engineering Consultants Co., Ltd. (偉信(天津)工程諮詢有限公司) since August 2018, and a director of Tianjin Xiqing BOC Fullerton Community Bank Corp. (天津西青中銀富登村鎮銀行股份有限公司) since January 2020. Mr. Yu Zhongpeng acted as a Director of the Company from 14 May 2018 and resigned from the director's position of the Company in April 2020.
Han Wei	Mr. Han graduated from the Management School of Tianjin University with a doctorate degree in management science and served as a Director of the Company during the reporting period. From March 2009 to September 2015, Mr. Han Wei worked for Tianjin Financial City Development Co., Limited (天津金融城開發有限公司), and successively served as the deputy director of the asset management department, the head of the asset management department, and the deputy chief economist. From October 2015 to March 2018, he served as the deputy director of the asset management department of Tianjin Investment Group. From April 2018 to December 2019, he served as the deputy director (in charge of overall operation) of the investment and development department of Tianjin Investment Group and has been concurrently serving as a director of TMICL since September 2019. From December 2019, he served as the general manager of the investment and development department of Tianjin Investment Group. He became a Director of the Company on 14 May 2018 and resigned from the Director's position of the Company in August 2020.

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Tang Fusheng	<p>Mr. Tang Fusheng was the general manager of the Company during the reporting period. Mr. Tang Fusheng served as the head of the development department, the deputy general manager, and the general manager of Water Recycling Company, a wholly-owned subsidiary of the Company from July 2001 to April 2009. He served as the assistant to the general manager of the Company, and at the same time served as the chairman and general manager of Water Recycling Company from April 2009 to February 2010. He served as the deputy general manager of the Company from March 2010 to February 2015. During his tenure as the deputy general manager of the Company, Mr. Tang concurrently served as the chairman of Water Recycling Company and the general manager of the Company's energy and resources department. His role as the general manager of Water Recycling Company ceased in June 2014 as a result of work rearrangement. He has been serving as the chairman of Hong Kong Company, a wholly-owned subsidiary of the Company, since June 2011, and has been serving as an Executive Director of Jiayuanxing, a wholly-owned subsidiary of the Company, since June 2014. In February 2015, Mr. Tang resigned from all of the abovementioned positions as a result of work rearrangement and was transferred to Tianjin Urban Pipe Network Construction Investment Co., Ltd. (天津城市道路管網配套建設投資有限公司) and served as a director and general manager of that company. Mr. Tang has served as the general manager of the Company since 26 January 2017, the director of the Company from 14 March 2017 to 17 December 2018. Mr. Tang resigned from the general manager's position of the Company in February 2021.</p>
Fu Yana	<p>Ms. Fu is the assistant general manager of the Company and the director of the security center. She was appointed as the Director, the deputy general manager, and the secretary to the Board of the Company from December 2003, served as the manager of the human resources department from November 2010 to November 2018, and has concurrently served as the officer to the office of general manager since November 2015. She ceased to be the secretary of the Board of the Company from 28 January 2016, ceased to be the Director of the Company from 18 December 2018, and ceased to be the deputy general manager of the Company from March 2020.</p>
Zhang Qiang	<p>Mr. Zhang is a professional chief engineer of the Company. From October 2007 to February 2009, Mr. Zhang Qiang was appointed as the chairman and general manager of Tianjin Seventh Municipal Highway Engineering Co., Ltd. in charge of the overall work. Mr. Zhang joined and served as the deputy general manager of the Company since 5 March 2009. During the period, he was also the general manager of the business department of the urban projects of the Company, and was the general manager of the 2nd engineering branch company from December 2010 to January 2016. Mr. Zhang ceased to be the deputy general manager of the Company from September 2020.</p>
Qi Lipin	<p>Ms. Qi is the assistant general manager of the Company. Ms. Qi worked for Binhai Municipal Construction and Development Co., Ltd. from July 1999 to February 2001. She joined the Company in February 2001, acted successively as the officer of project development department, assistant to the manager of market development department, deputy manager of the department of assets management and corporate development and research, deputy manager of the planning department, and manager of the operation and management department. She was appointed as the deputy chief economist and the manager of the operation and management department of the Company since January 2010. She was appointed as the chief economist of the Company since October 2015. Ms. Qi was a Supervisor of the Company from June 2009 to October 2015. Ms. Qi ceased to be the chief economist of the Company from March 2020.</p>

Each Director or Supervisor has not entered into any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

(II) Equity incentives granted to Directors and senior management during the reporting period

Not applicable

Directors', Supervisors' and the Company's chief executives' interests and/or short positions in the shares, underlying shares and debentures of the Company or its associated corporations

As at 31 December 2020, the interests and/or short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which were taken as or deemed to have pursuant to the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or otherwise, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name	Company/name of associated corporations	Capacity	Number and class of securities (Note)	Approximate percentage in the total issued share capital of the Company/associated corporations
Deputy general manager				
Zhang Jian	Company	Beneficial owner	822 domestic shares (non-restricted circulating shares) (L)	0.000058%

Note: The letter "L" represents the person's long positions in the shares, underlying shares and debentures of the Company or its associated corporations.

As at 31 December 2020, none of the directors, supervisors or chief executives of the Company or their spouses or children under 18 years of age were granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

7. Directors, Supervisors, Senior Management and Employees

II. POSITIONS HELD BY THE EXISTING AND RESIGNED DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

(I) Positions held at the shareholder's entity

Name	Name of shareholder's entities	Position held in shareholder's entities	Appointment date	Termination date
Gu Wenhui	TMICL	Secretary of the party general branch, chairman, and general manager	16 April 2020	—
Li Zongqiang	TMICL	Head of the risk management department	18 January 2019	—
Peng Yilin	TMICL	Director	28 December 2020	—
Description of positions held at shareholders' entities	Nil			

II. POSITIONS HELD BY THE EXISTING AND RESIGNED DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD (Continued)

(II) Positions held at the other entities

Name	Name of other entities	Position held in other entities	Appointment date	Termination date	
Gu Wenhui	Tianjin Investment Group Tianjin Investment Group	Director	November 2014	23 September 2020	
		General Manager of the Enterprise Management Department	March 2021	–	
	Tianjin Municipal Investment Property Investment and Development Co., Ltd.	Director	November 2016	–	
	Tianjin City Investment Development and Leasing Co., Ltd.	Director	15 May 2020	–	
Si Xiaolong	Tianjin Investment Group	Aiyikang (Tianjin) Engineering Consultants Co., Ltd.	Deputy Chairman	24 April 2020	–
		Director of the Board Office, Deputy General Manager of the Enterprise Management Department	March 2021	–	
Guo Yongqing	Guokong Jincheng	Director	October 2018	–	
	Shanghai National Accounting Institute	Accounting Professor	May 2002	–	
	Chongqing Porton Pharmacy Science & Technology Co., Ltd.	Independent Director	22 March 2016	–	
	Ribo Fashion Group Co., Ltd.	Independent Director	29 May 2019	–	
	Yango Group Co., Ltd.	Independent Director	15 May 2020	–	
	Ningbo Zhenghai Jianwu Asset Management Co., Ltd.	Director	29 December 2018	–	
Di Xiaofeng	Commerce & Finance Law Offices in Beijing	Partner	9 August 2016	–	
	Beijing Jingxi Culture and Tourism Co., Ltd.	Independent Director	16 May 1992	18 June 2021	
Wang Xiangfei	Nan Nan Resources Enterprise Limited	Director	27 May 2016	–	
	China Sonangol International Holding Limited	Director	25 March 2008	–	
Positions held at other entities	Nil		23 August 2016	–	

7. Directors, Supervisors, Senior Management and Employees

III. REMUNERATION OF DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT

Procedures for determining the remuneration of the Directors, Supervisors, and senior management

The remuneration of the Directors and Supervisors will be determined in accordance with the remuneration standard for the Directors and Supervisors as approved at the general meetings of the Company. The remuneration of the senior management will be determined on the basis of the remuneration plan approved by the Board and the operation result of the Company, and an annual salary system and an performance pay system based on the completion of annual operating targets will be implemented. The Directors (other than the independent Directors) and Supervisors of the Company do not receive remuneration for acting as directors or supervisors.

Basis for determining the remuneration of the Directors, Supervisors, and senior management

The remuneration of the Company's senior management will be distributed in accordance with their achievements in production and operation tasks and their routine management work. The performance pay will be distributed according to the achievement of annual operating targets and performance appraisal results.

Actual payment of the remuneration to the Directors, Supervisors, and senior management

The remuneration distributed by the Company to the Directors, Supervisors, and senior management is in line with the salaries and performance appraisal requirements of the Company and distributed according to the requirements.

Actual remuneration received by all Directors, Supervisors, and senior management as at the end of the reporting period (in total)

RMB 13,229,400

During the financial year, the Company did not pay any housing allowance, other allowance, and benefits in kind and bonus to the Directors, Supervisors and senior management, nor any payment to them as an inducement to join the Company or as compensation for loss of office of Directors, Supervisors or senior management. None of the Directors, Supervisors and senior management of the Company waived or agreed to waive any emoluments. The Company has not provided any loans or guarantees to the Directors, Supervisors or senior management. Except for remuneration, the Directors, Supervisors and senior management of the Company or such entities connected thereto have not derived other material interests, whether directly or indirectly, from other transactions, arrangements or contracts. The Company, during the reporting period, did not enter into any administration or management contracts for all or material parts of its business.

IV. CHANGES IN DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT OF THE COMPANY

Name	Position held	Changes	Reason for changes
Yu Zhongpeng	Director	Resignation	Work engagement
Han Wei	Director	Resignation	Adjustment of work arrangement
Gu Wenhui	Director	Appointment	Elected at the general meeting of Company
Tang Fusheng	General Manager	Resignation	Work engagement
Fu Yana	Deputy General Manager	Resignation	Work engagement
Qi Lipin	Chief Economist	Resignation	Work engagement
Li Yang	General Manager	Appointment	Work engagement
Zhao Mingwei	Deputy General Manager	Appointment	Work engagement

V. PUNISHMENTS IMPOSED BY SECURITIES REGULATORY AUTHORITIES IN THE LATEST THREE YEARS

Not applicable

VI. EMPLOYEES OF THE COMPANY AND ITS MAJOR SUBSIDIARIES

(I) Employees

Number of on-duty employees of the Company	471
Number of on-duty employees of major subsidiaries	1,563
Total number of on-duty employees	2,034
Number of retired employees to whom the Company and its major subsidiaries are required to pay charges	0

Composition by profession

Category of profession	Number
Production	1,023
Sales	92
Technical	441
Finance	112
Administration	186
Corporate management	180
Total	2,034

Education

Category of education	Number (persons)
Doctor	5
Master	130
Undergraduate	1,054
Tertiary	544
Secondary	165
Below secondary	136
Total	2,034

7. Directors, Supervisors, Senior Management and Employees

VI. EMPLOYEES OF THE COMPANY AND ITS MAJOR SUBSIDIARIES (Continued)

(II) Remuneration policy

In 2020, the Company established remuneration management and income distribution system focusing on performance based on the requirements of three system reforms of state-owned enterprises, To further improve the remuneration management system, the Company launched systems at two levels, i.e. remuneration management system for management members and remuneration management system for employees. The remuneration of the management is composed of basic annual salary, annual performance-related pay and tenure incentive; and the remuneration of the employee is composed of basic salary, performance-based salary, benefits and other remuneration. The performance-based annual pay and performance-based salary are provided and distributed based on the completion of the annual targets.

(III) Training programs

In 2020, the Company implemented an independent training policy under the control of training funds. With the principle of “strategy-prioritized, forward-looking, urgency first and pragmatic”, the Company formulated annual training plan, and determined the main contents from three aspects, including quality improvement, mandatory training and self-improvement, so as to ensure that the training courses are target-oriented and effective and the employees will grow with the enterprise.

(IV) Subcontracting labor

Not applicable

I. DESCRIPTION OF CORPORATE GOVERNANCE OF THE COMPANY

(I) Corporate Governance of the Company

During the reporting period, the Company strictly complied with the requirements under the PRC Company Law, Code on Corporate Governance for Listed Companies, the Articles of Association of the Company and the requirements of the relevant laws and regulations of the CSRC, to continuously improve its corporate governance structure and regulate its daily operation.

According to the Articles of Association of the Company and the relevant regulations, the general meeting shall be the highest authority of the Company. The Company shall convene and hold general meetings in strict compliance with the Rules of Procedures for General Meetings in order to ensure shareholders can exercise their voting rights duly and successfully. Within the scope of authorization by the general meetings, the Board shall be responsible for the overall operation and management of the Company and convene the Board meetings in strict compliance with the Rules of Procedures for Board Meetings. All Directors shall duly discharge their duties in a diligent way, independently perform their duties and pay sufficient attention to the interests of all medium and small shareholders. Committees of the Board of the Company such as the Audit Committee, Remuneration and Assessment Committee, Nomination Committee and Strategy Committee shall perform their work independently according to their respective detailed working rules, and provide support for the scientific decisions of the Board in their respective disciplines. Managers of the Company shall, with the authorization, and leadership of the Board, be responsible for the daily operation and management of the Company according to the Rules of Procedures for General Manager's Meeting. Within the scope of authorization by general meetings, the Supervisory Committee shall be responsible for supervision of the legality and compliance of the performance of duties by the Board and managers.

The Company is in compliance with the relevant requirements of regulatory authorities in respect of major governance aspects such as the controlling shareholder and the Company, the Directors and the Board, the Supervisors and the Supervisory Committee, performance appraisal and incentive control mechanism, stakeholders as well as information disclosure and transparency. There is no difference between the actual governance practices of the Company and the requirements of the Company Law and the relevant requirements of the CSRC.

In order to further improve the structure of the corporate governance of the Company and protect the interests of shareholders, the Company amended the Articles of Association and the Rules of Procedures for General Meetings during the reporting period according to the actual situation of the Company.

8. Corporate Governance

I. DESCRIPTION OF CORPORATE GOVERNANCE OF THE COMPANY (Continued)

(II) Corporate Governance Report

1. About Corporate Governance Practices

The Company has continuously amended its relevant codes on corporate governance with strict implementation pursuant to the revised corporate governance rules of regulatory bodies. During the reporting period, the Company complied with the Corporate Governance Code.

2. About Securities Transactions by the Directors

According to the Company's Articles of Association and the "Management System for Inside Information"* (《内幕信息管理制度》), the Company has formulated the "Management System for the Shareholding of Directors, Supervisors and Senior Management"* (《董事、監事、高級管理人員持股管理制度》), which requires that the Directors, Supervisors, managers and other senior management shall during their terms of office make regular reports to the Company on the Company's shares they held, shall not transfer more than a total of 25% of the shares of the Company they held for each year during their terms of office, and shall not transfer the Company's shares they held within six months after their resignation, etc.

After making detailed enquiries by the Board, as at the end of the reporting period, save of Mr. Zhang Jian holding 822 domestic Shares of the Company, none of the Directors of the Company held any other share of the Company and they did not conduct any share transaction during the reporting period.

3. About the Board

According to the Articles of Association of the Company, the Board of the Company shall consist of nine Directors. Currently, the Board consists of eight Directors, including Mr. Liu Yujun (Chairman of the Board), Ms. Wang Jing and Mr. Niu Bo as executive Directors; Mr. Gu Wenhui and Mr. Si Xiaolong as non-executive Directors; Mr. Di Xiaofeng, Mr. Wang Xiangfei and Mr. Guo Yongqing as independent non-executive Directors. During the reporting period, the original non-executive Directors Mr. Yu Zhongpeng and Mr. Han Wei resigned from the positions as a result of work rearrangement. Upon approval by the Company's general meeting, Mr. Gu Wenhui replaced Mr. Yu Zhongpeng as a non-executive Director of the company. Terms of the Directors of the eighth session of the Board were from 18 December 2018 to 17 December 2021, and the term of Mr. Gu Wenhui was from 14 May 2020 to 17 December 2021.

I. DESCRIPTION OF CORPORATE GOVERNANCE OF THE COMPANY (Continued)

(II) Corporate Governance Report (Continued)

3. About the Board (Continued)

There was no relationship including financial, business, family or other material and relevant relationship between the members of the Board of the Company. All of the Board members possess immense qualifications and management experience. The qualifications and professional experiences of the independent Directors have fully complied with the requirements under the Listing Rules. The Board of the Company has accepted the declaration of independence for the year 2020 by each independent non-executive Director, and confirms that they comply with the relevant independence requirements as set out under Rule 3.13 of the Listing Rules of the Stock Exchange.

The Company held 18 Board meetings and 3 general meetings during the reporting period. For details of the attendance of Directors, please refer to “Attendance of Directors at the Board meetings and general meetings” in this section.

There is a clear demarcation on the duties of the Board and the managerial level in the Articles of Association of the Company and the “Rules of Procedures for Board Meetings”. The Rules of Procedures for Board Meetings and the Rules of Procedures for General Manager’s Meeting have made specific requirements on the decision making procedure and basis of decisions for the Board and the managerial level, so as to ensure the decisions of the Directors, the Board, the senior management and the managerial level to be scientific and legal. Within the scope of authorization by general meetings, all matters that are required to be disclosed shall be submitted to the Board of the Company for its decision and disclosed according to the requirements under the listing rules of the SSE and the Listing Rules, and matters which are not required to be disclosed are generally decided and implemented by the General Manager’s meeting of the Company.

Trainings for Directors in 2020

With the continuous growth of the Company’s business and the amendments of the Listing Rules from time to time, professional development on an on-going basis has become very important for the Directors. In order to ensure the Directors to constantly develop talents and knowledge necessary for their performance of duties, the Company has arranged some training for the Directors appropriately with proper training records kept at the Office of Corporate Governance of the Company.

8. Corporate Governance

I. DESCRIPTION OF CORPORATE GOVERNANCE OF THE COMPANY (Continued)

(II) Corporate Governance Report (Continued)

4. About the Chairman and the Chief Executive Officer

In accordance with the Articles of Association of the Company, the main duties of the Chairman of the Board and the Chief Executive Officer (the Articles of Association refers the Chairman of the Board as “Chairman” and the Chief Executive Officer as “General Manager”, therefore hereinafter referred to as “Chairman” and “General Manager” respectively) are clearly separated. The Chairman is responsible for holding and presiding over the Board meetings, and the effective operation of the Board, while the General Manager of the Company is responsible for various operation activities of the Company, and is accountable to the Board. The appointment of the Chairman should be approved by more than a half of all the Directors while the General Manager should be nominated by the Chairman with his appointment to be approved by the Board.

During the reporting period, Mr. Tang Fusheng was the General Manager of the Company.

5. About Non-executive Director

On 17 December 2018, Mr. Si Xiaolong as the non-executive Director and Mr. Di Xiaofeng, Mr. Wang Xiangfei and Mr. Guo Yongqing as independent non-executive Directors of the eighth session of the Board of the Company were elected. Terms of all of these persons were from 18 December 2018 to 17 December 2021. The term of Mr. Gu Wenhui, as the non-executive Director elected by the 2019 Annual General Meeting, was from 14 May 2020 to 17 December 2021.

6. About Committees under the Board

- (1) The Remuneration and Assessment Committee consists of three independent non-executive Directors, and the chairman of the eighth Remuneration and Assessment Committee is Mr. Di Xiaofeng. Its primary duties are to propose remuneration plan for the Directors and senior management of the Company to the Board and to assess and evaluate the performance of the Company, by adopting the second model under B.1.2(c) of Appendix 14 to the Listing Rules. For its written working scope, please refer to the Implementation Rules for the Remuneration and Assessment Committee of the Company which is available on the website of the Stock Exchange.

During the reporting period, the Company held 4 meetings of the Remuneration and Assessment Committee, at which the Company’s 2019 indicator completion and assessment, the remuneration management system of the management, the remuneration of Mr. Gu Wenhui, the 2020 assessment plan of the management, and the share incentive scheme were discussed. The members of the Remuneration and Assessment Committee attended all the meetings held during the reporting period.

I. DESCRIPTION OF CORPORATE GOVERNANCE OF THE COMPANY (Continued)

(II) Corporate Governance Report (Continued)

6. About Committees under the Board (Continued)

- (2) Members of the eighth Nomination Committee of the Company elected by the Board on 18 December 2018 comprised two executive Directors (being Mr. Liu Yujun, the Chairman, and Ms. Wang Jing, the executive Director) and three independent Directors with Mr. Di Xiaofeng as its chairman. The primary duties of the Nomination Committee are to study and propose candidates, selection criteria and procedures of Directors and senior management of the Company. For its written working scope, please refer to the Implementation Rules for the Nomination Committee of the Company which is available on the website of the Stock Exchange.

In respect of the nomination procedures as well as the selection and recommendation of candidates for the Director, the Articles of Association of the Company provides that, the Board of the Company and shareholders representing, in aggregate, more than 10% of the total shares of the Company may nominate candidates for the Director of the Company. The Nomination Committee under the Board of the Company shall make suggestions to the Board regarding the nomination, selection and recommendation of candidates of Directors pursuant to the Implementation Rules for the Nomination Committee of the Company. The appointment of executive Directors is determined by the general meetings. The nomination and appointment of the executive Directors and non-executive Directors have been carried out in accordance with the above-mentioned procedures of nomination, selection and recommendation. In addition, the qualifications for acting as independent non-executive Directors are subject to review and approval by SSE.

The Board of the Company has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. Accordingly, selection of candidates to the Board is based on a range of measurable objectives, including but not limited to gender, age, cultural and educational background, professional experience and qualifications, skills, knowledge and length of service, having regard to the Company's own business model and specific needs from time to time. Nomination Committee considers that the current members of directors are in conformity with the Implementation Rules for the Nomination Committee of the Board of the Company, board diversity policy as well as the present situation and future development plan of the Company in terms of gender, age, cultural and educational background, professional experience, skills.

During the reporting period, the Company held 1 meeting of the Nomination Committee which discussed matters in relation to the nomination of Mr. Gu Wenhui as a Director of the eighth session of the Board.

The members of the Nomination Committee attended all the meetings held during the reporting period.

8. Corporate Governance

I. DESCRIPTION OF CORPORATE GOVERNANCE OF THE COMPANY (Continued)

(II) Corporate Governance Report (Continued)

6. About Committees under the Board (Continued)

- (3) The Audit Committee of the Company comprised three independent Directors of the Company with Mr. Guo Yongqing as the chairman. The primary duties of the Audit Committee include reviewing of yearly, half-yearly and quarterly financial statements, reviewing and monitoring the financial management, internal control, risk management and corporate governance of the Company and making proposal for the appointment of external auditors. For details of its written working scope, please see the Implementation Rules for the Audit Committee of the Company which is available on the website of the Stock Exchange.

With respect to reviewing of the Company's periodic reports, during the preparation of annual reports, half-yearly reports and quarterly reports, the Audit Committee hears the audit opinions of the external auditor and internal auditor, and reviews the results report at a separate meeting; With the assistance of the internal audit department of the Company, the Audit Committee reviews the effectiveness of the Company's internal control system at the beginning of each year and reviews the annual internal control evaluation report of the Company and discloses it together with the annual results report.

With respect to corporate governance, the Company has established a relatively sound corporate governance structure according to the relevant laws and regulations and the actual situation of the Company. For details of the corporate governance, please refer to "(i) Corporate Governance" above. The Audit Committee reviews and assesses the internal control of the Company annually, including the evaluation of the corporate governance of the Company.

During the reporting period, the Company held 7 meetings of the Audit Committee which mainly discussed financial information in quarterly reports, half-yearly reports and annual reports, and reviewed the internal control of the Company, and made proposal for the appointment of external auditors, etc. The members of the Audit Committee have attended all the meetings during the reporting period.

- (4) The eighth Strategy Committee of the Board of the Company consists of two executive Directors, two non-executive Directors and one independent Director of the Company with Mr. Liu Yujun, the Chairman, as its chairman. Its primary duties are to study and propose the medium and long-term development strategies and major investment decisions of the Company.

No Strategy Committee meeting was held during the reporting period.

I. DESCRIPTION OF CORPORATE GOVERNANCE OF THE COMPANY (Continued)

(II) Corporate Governance Report (Continued)

7. About the Remuneration of Auditors

During the reporting period, the Company re-elected PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the Company's external auditors which were approved at the general meeting. The appointment agreement sets out the details of the audit content and remuneration of the auditors. For the remuneration of auditors, please see "Appointment and Removal of Accounting Firm" in this report.

During the reporting period, the auditors provided internal control audit services to the Company and issued an audit opinion on the internal control of the Company. The Company signed an appointment agreement with the auditors with respect to such non-auditing services, which sets out the scope of the audit contents and remuneration of the auditors.

8. About Company Secretary

On 18 December 2018, the eighth session of the Board of the Company appointed Ms. Cho Yee Yung, Mona of Li & Partners as company secretary and the authorised representative of the Company under Rule 3.05 of the Listing Rules. Ms. Cho Yee Yung, Mona attended not less than 15 hours of relevant professional trainings during financial year 2020 in accordance with Rule 3.29 of the Listing Rules. Ms. Cho Yee Yung, Mona generally contacts Mr. Niu Bo, the secretary to the Board of the Company.

9. About Shareholders' Rights

In accordance with the relevant requirements of the Articles of Association and the Rules of Procedures for General Meetings of the Company, shareholders who severally or jointly hold 10% or more shares in the Company are entitled to request the Board or the Supervisory Committee to convene or convene by themselves an extraordinary general meeting. The conditions and procedures for the application for convening or convening by themselves such a general meeting shall be explicitly stated. For details of the regulations, please refer to the Articles of Association of the Company and the Rules of Procedures for General Meetings.

10. About Investor Relationship

During the reporting period, in order to further enhance corporate governance and protect the interests of investors, the Company organized the amendment to the Articles of Association of Tianjin Capital Environmental Protection Group Company Limited.

8. Corporate Governance

I. DESCRIPTION OF CORPORATE GOVERNANCE OF THE COMPANY (Continued)

(II) Corporate Governance Report (Continued)

11. Risk Management and Internal Control

During the reporting period, the Company has established an appropriate internal control system. The internal control system is established and gradually improved with the orientation to possible risks exposed by the Company in various key business and management activities. The Enterprise Management Center of the Company is responsible for the building of the risk management and internal control system. The Office of Corporate Governance of the Company is responsible for reviewing the effectiveness of risk management and internal control.

The Audit Committee of the Board of the Company shall hear the report from the legal and audit department on annual conclusion and plans of the internal audit in due course every year and review the internal control and risk management of the Company.

Each year, the Board of the Company shall review the internal control monitoring system, and issue the Annual Self-Evaluation Report on Internal Control to investors.

12. About Other Specific Disclosures

The Directors are responsible for supervising the compilation of the accounts for each financial period, in order to ensure that those accounts reflect genuinely and fairly the business and results of the Company for the period. In compiling the accounts for the year ended 31 December 2020, the Directors have chosen and thoroughly applied the appropriate accounting policies with due and reasonable judgment and estimates having been made, and prepared the accounts on a going concern basis.

The Directors consider that there was no occurrence of material uncertainties or situations which may affect the ability of the Company as a going concern during the reporting period.

The Board of the Company has been much concerned about the internal control of the Company. At the forty-sixth meeting of the eighth Board held on 25 March 2021, the resolution in respect of the internal control of the Company in 2020 was solely considered and a self-evaluation report on internal control was issued. PricewaterhouseCoopers Zhong Tian LLP has audited the internal control of the Company during 2020, and has issued a standard unqualified audit opinion.

II. SHAREHOLDERS' GENERAL MEETINGS

Session of meeting	Date of meeting	Inquiry index for the designated website for publishing the voting results	Date of disclosure of the resolutions
2019 Annual General Meeting	13 May 2020	Website of the SSE at www.sse.com.cn ; Website of the Stock Exchange at www.hkex.com.hk ; Website of Merrill IFN at http://www.ifn.com.hk/ir/tjcep/	14 May 2020
2020 first extraordinary general meeting, 2020 first A shareholders' class meeting, and 2020 first H shareholders' class meeting	7 September 2020	Website of the SSE at www.sse.com.cn ; Website of the Stock Exchange at www.hkex.com.hk ; Website of Merrill IFN at http://www.ifn.com.hk/ir/tjcep/	8 September 2020
2020 second extraordinary general meeting, 2020 second A shareholders' class meeting, and 2020 second H shareholders' class meeting	23 December 2020	Website of the SSE at www.sse.com.cn ; Website of the Stock Exchange at www.hkex.com.hk ; Website of Merrill IFN at http://www.ifn.com.hk/ir/tjcep/	24 December 2020

III. PERFORMANCE OF DUTIES BY DIRECTORS

(I) Attendance of Directors at the Board meetings and general meetings

Director Name	Independent Director	Attendance at the Board meetings					Attendance at the general meetings	
		Number of Board meetings required to attend during the year	Number of attendance in person	Number of attendance through communication	Number of attendance by proxy	Number of absences	Not attend in person for 2 consecutive meetings	Number of attendance at the general meetings
Liu Yujun	No	19	19	15	0	0	No	2
Wang Jing	No	19	19	15	0	0	No	3
Niu Bo	No	19	19	15	0	0	No	3
Yu Zhongpeng	No	4	4	4	0	0	No	0
Han Wei	No	13	13	13	0	0	No	1
Gu Wenhui	No	14	13	12	1	0	No	2
Si Xiaolong	No	19	19	19	0	0	No	3
Wang Xiangfei	Yes	19	19	19	0	0	No	3
Guo Yongqing	Yes	19	19	18	0	0	No	3
Di Xiaofeng	Yes	19	19	18	0	0	No	3
Number of Board meetings convened during the year								19
Among all: number of meetings held on site								0
Number of meetings held through communication								15
Number of meeting held on site combined with communication								4

(II) Disagreement on the relevant matters of the Company by the independent non-executive Directors

Not applicable

8. Corporate Governance

IV. IMPORTANT OPINIONS AND SUGGESTIONS RAISED BY SPECIAL COMMITTEES UNDER THE BOARD WHEN PERFORMING THEIR DUTIES DURING THE REPORTING PERIOD AND DISCLOSURE ON EVENTS INVOLVING OBJECTIONS AND DISSENTS

(1) Audit Committee

During the reporting period, the Company held 7 meetings of the Audit Committee, at which 4 periodic reports of the Company and reports on appointment of accounting firms and internal control evaluation were reviewed, and no disagreement was raised.

(2) Nomination Committee

During the reporting period, the Company held 1 meeting of the Nomination Committee, at which the nomination of Mr. Gu Wenhui as the non-executive Director of the Company was discussed and approved by the general meeting.

(3) Remuneration and Assessment Committee

During the reporting period, the Company held 4 meetings of the Remuneration and Assessment Committee, at which the Company put forward proposals and suggestions concerning the Company's 2019 indicator completion and assessment, the remuneration management system of the management, the remuneration of Mr. Gu Wenhui, the 2020 assessment plan of the management, and the share incentive scheme, and the proposals and suggestions were approved by the Board.

(4) Strategy Committee

No meeting of the Strategy Committee was held during the reporting period.

V. DESCRIPTION OF RISKS IN THE COMPANY FOUND BY THE SUPERVISORY COMMITTEE

Not applicable

VI. SITUATION OF NO GUARANTEE OF INDEPENDENCE AND INCAPABILITY ON SELFOPERATION BETWEEN THE COMPANY AND ITS CONTROLLING SHAREHOLDER WITH RESPECT TO THE MATTERS INCLUDING BUSINESS, STAFFS, ASSETS, ORGANIZATION, AND FINANCE

Not applicable

Measures, work progress, and subsequent work plans of the Company concerning non-competition issues

Not applicable

VII. ESTABLISHMENT AND IMPLEMENTATION OF THE ASSESSMENT MECHANISM AND INCENTIVE SYSTEM FOR SENIOR MANAGEMENT DURING THE REPORTING PERIOD

During the reporting period, the Company built professional manager team and put in place a corresponding salary and appraisal system. The annual salary of professional managers comprises of the basic annual salary and the annual performance-related pay, among which annual performance-related pay is tied to the annual appraisal plan approved by the Board and results of the completion of individual targets, as well as the accomplishments of the Group's overall operation results. Meanwhile, the Company also sets three-year tenure incentive targets and incentive methods. The performance of the professional managers in 2020 was evaluated based on the above principle.

During the accounting period, the contributions made to the pension schemes of the five highest paid individuals by the Company are as follows:

Unit: Yuan Currency: RMB

Name	Contribution to pension schemes
Liu Yujun	35,118.72
Tang Fusheng	35,118.72
Li Yang	35,118.72
Zhao Yi	35,118.72
Li Jinhe	35,118.72

Among which, the part of paid basic pension for February-December 2020 from enterprise has been returned.

8. Corporate Governance

VIII. DISCLOSURE OF THE SELFEVALUATION REPORT ON INTERNAL CONTROL

For details, please refer to “2020 Self-Evaluation Report on Internal Control” disclosed at the website of the SSE on 26 March 2021.

Descriptions of Material Defects Relating Internal Control during the Reporting Period

Not applicable

IX. EXPLANATION IN RESPECT OF THE INTERNAL CONTROL AUDIT REPORT

PricewaterhouseCoopers Zhong Tian LLP engaged by the Company has audited the effectiveness of internal control relating to the financial reporting of the Company and has issued an internal control audit report with standard unqualified opinions.

For details of the internal control audit report, please refer to the “2020 Internal Control Audit Report” disclosed on the website of the SSE on 26 March 2021.

9. Relevant Details of Corporate Bonds

I. BASIC DETAILS OF CORPORATE BONDS

Unit: Yuan Currency: RMB

Name of Bond	Abbreviation	Code of Bond	Issue Date	Maturity date	Balance of Bond	Coupon (%)	Debt Service	Trading Place
Public Issue of Corporate Bonds of Tianjin Capital Environmental Protection Group Company Limited in 2016 (Phase I)	16 津創 01	136801.SH	25 October 2016	25 October 2021	700,000,000	3.13	Interest shall be paid annually, while the principal shall be fully repaid upon maturity. Principal will be repaid upon maturity together with interest payable for the last period.	SSE
Public Issue of Corporate Bonds of Tianjin Capital Environmental Protection Group Company Limited in 2018 (Phase I)	18 津創 01	143609.SH	26 April 2018	26 April 2023	1,100,000,000	5.17	Interest shall be paid annually, while the principal shall be fully repaid upon maturity. Principal will be repaid upon maturity together with interest payable for the last period.	SSE

Interests payment and bonds repayment of the Company

During the reporting period, the Company has completed the interest payment for “16 津創 01” and “18 津創 01” for the year 2020 as scheduled.

Explanation on other circumstances of corporate bond

“16 津創 01” has no issuer or investor option terms nor special terms such as exchangeable terms. Issuing targets of “16 津創 01” are eligible investors who satisfy requirements of laws and regulations.

“18 津創 01” contains terms which offer the issuer’s option to adjust the coupon rate and investors’ put option but does not have other special terms such as exchangeable terms. During the reporting period, both the issuer’s option to adjust the coupon rate and investors’ put option were not triggered for “18 津創 01”. Issuing targets of “18 津創 01” are eligible investors who satisfy requirements of laws and regulations.

II. CONTACT PERSON AND MEANS OF COMMUNICATION OF CORPORATE BOND TRUSTEE AND MEANS OF COMMUNICATION OF CREDIT RATING AGENCY

Bond trustee	Name	Ping An Securities Co., Ltd.
	Office address	16/F, North Tower, Financial Street Centre, 9 Financial Street, Xicheng District, Beijing
	Contact person	Li Chuan (李川), Jia Xuan (賈軒)
	Contact number	010-56800258
Credit rating agency	Name	United Credit Rating Co., Ltd.
	Office address	12th Floor, PICC Office Tower, No.2 Jianguomen Outer Street, Chaoyang District, Beijing

During the reporting period, the Company did not change the bond trustee and credit rating agency engaged.

9. Relevant Details of Corporate Bonds

III. USE OF PROCEEDS FROM BOND OFFERING

The issue size of “16 津創 01” was RMB700,000,000.00, and the net proceeds after deducting the underwriting expenses was RMB697,200,000.00. As at the end of the reporting period, the net proceeds has been used in accordance with the intended use stated in the prospectus, and the balance is RMB0.

The issue size of “18 津創 01” was RMB1,100,000,000.00, and the net proceeds after deducting the underwriting expenses was RMB1,097,360,000.00. As at the end of the reporting period, RMB1,097,337,730.5 in the net proceeds has been used in accordance with the intended use stated in the prospectus, and the balance is RMB22,269.5.

During the reporting period, the proceeds account operated well.

The Company strictly followed its capital management system and the relevant laws and regulations, and performed relevant procedures for the use of proceeds. The use of proceeds was in line with the intended use, plan of use and other arrangements stated in the prospectus.

IV. CORPORATE BOND RATING

On 19 May 2020, United Credit Rating Co., Ltd. completed ongoing credit rating for the Company, “16 津創 01” and “18 津創 01”, maintaining long term credit of the Company as “AA+”, and the credit rating outlook as “stable”; maintaining the credit rating of the bond loans, “16 津創 01” and “18 津創 01” at “AA+”. Investors should be aware that United Credit Rating Co., Ltd. will perform updated ongoing credit rating for the Company for corporate bond within two months in a timely manner upon disclosure of the annual report and relevant disclosure will be made in the Shanghai Stock Exchange website (www.sse.com.cn).

V. CORPORATE BOND CREDIT ENHANCEMENT MECHANISM, DEBT REPAYMENT SCHEDULE, AND OTHER RELEVANT INFORMATION DURING THE REPORTING PERIOD

During the reporting period, both the repayment schedule and repayment protection mechanism of “16 津創 01” and “18 津創 01” were well executed and were in line with the arrangement and underlying undertakings as mentioned in the prospectus. There were no changes in that regard. The Company has set up a specialized repayment account for the said corporate bond and has completed withdrawal for such specialized repayment account in accordance with the undertakings as stated in the prospectus.

VI. CONVENING OF MEETINGS OF BONDHOLDERS

Not applicable

VII. PERFORMANCE OF CORPORATE BOND TRUSTEE

During the terms of the corporate bonds, the corporate bond trustee strictly complies with the arrangement stated in the “Corporate Bond Trustee Agreement” and perform ongoing tracking on credit condition, management on use of proceed fund, and corporate bond interest payment of the Company. It has also ensured that the Company performs obligations as stipulated in the corporate bond prospectus. The corporate bond trustee actively performs its responsibilities and protects the legal rights of bondholders. Investors should be aware that corporate bond trustee shall issue its corporate bond trustee management report (2020) before 30 June 2021 and is expected to disclose on the Shanghai Stock Exchange website (www.sse.com.cn).

VIII. ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY IN THE PREVIOUS TWO YEARS AS OF THE END OF THE REPORTING PERIOD

Unit: 0'000 Currency: RMB

Major Indicators	2020	2019	Increase/Decrease for the period as compared to the same period last year (%)	Reason for the change
Profit before EBITDA	156,343.50	135,301.40	15.55	Increase in total profits and interest expenses
Current ratio	1.08	1.35	-20.00	Significant decrease of monetary funds and account receivables compared with the previous period
Quick ratio	1.07	1.35	-20.74	Significant decrease of monetary funds and account receivables compared with the previous period
Assets liability ratio (%)	59.68	60.30	-1.03	Basically the same
Debt to EBITDA ratio	0.22	0.22	0.00	Basically the same
Interest protection multiples	3.64	3.94	-7.61	Increase in interest expenses in the current year
Cash interest protection multiples	2.79	5.02	-44.42	Increase in interest expenses in the current year
EBITDA interest protection multiples	5.75	6.32	-9.02	Increase in interest expenses in the current year
Debt service ratio (%)	100	100	0.00	Not applicable
Interest coverage rate (%)	100	100	0.00	Not applicable

9. Relevant Details of Corporate Bonds

IX. BANK CREDIT OF THE COMPANY DURING THE REPORTING PERIOD

Not applicable

X. BANK CREDIT OF THE COMPANY DURING THE REPORTING PERIOD

As of the end of the reporting period, the Company has obtained, in aggregate, a credit facility of approximately RMB13.556 billion from various banks, of which approximately RMB4.019 billion was utilized with a remaining balance of approximately RMB9.537 billion. During the reporting period, the Company has repaid each bank loans as scheduled and there is no renewal or concession for such loans.

XI. PERFORMANCE OF RELEVANT AGREEMENT OR COMMITMENT OF THE CORPORATE BOND PROSPECTUS BY THE COMPANY DURING THE REPORTING PERIOD

During the reporting period, the Company strictly complied with the relevant agreements or commitments as set out in the corporate bond prospectus. There was no significant impact on the interests of bond investors.

XII. MAJOR ISSUES OF THE COMPANY OCCURRED DURING THE REPORTING PERIOD AND ITS EFFECT ON THE OPERATION AND SOLVENCY OF THE COMPANY

Not applicable

10. Financial Report

For details, please refer to the accounting statements and report of the auditors for 2020 of the Company.

11. Report of the Auditors

Auditor's Report

PwC ZT Shen Zi (2021) No. 10031

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To the Shareholders of Tianjin Capital Environmental Protection Group Company Limited,

OPINION

What we have audited

We have audited the accompanying financial statements of Tianjin Capital Environmental Protection Group Company Limited (hereinafter the “Capital Environmental Protection”), which comprise:

- the consolidated and company balance sheets as at 31 December 2020;
- the consolidated and company income statements for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in shareholders' equity for the year then ended; and
- notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of Capital Environmental Protection as at 31 December 2020, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises (“CASs”).

BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing (“CSAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of Capital Environmental Protection in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants (“CICPA Code”), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is summarised as follows :

Key Audit Matter

Assessment of expected credit losses for trade receivables

Refer to Notes 4 (3) and Notes 4(8) to the financial statements

As at 31 December 2020, the Group’s gross trade receivables amounted to approximately RMB3,559,373,000 (including the portion of the trade receivables due from a government authority of approximately RMB1,431,761,000 as included in the Group’s long-term receivables (Note 4(8))), represented approximately 19% of the total assets of the Group, and a loss allowance of RMB169,312,000 (including a loss allowance of approximately RMB783,000 as included in the Group’s long-term receivables) was recognised on these trade receivables.

The balance of loss allowance for trade receivables represent the management’s best estimates on the expected credit losses (“ECL”) for these trade receivables as of the balance sheet date.

Management assessed the lifetime ECL of the trade receivables using simplified approach. Trade receivables have been grouped based on shared credit risk characteristics and ageing analysis to measure the expected credit losses. Significant management judgement is applied in determining the calculation model and selecting the inputs to calculate the expected credit loss rate, based on the Group’s historical aging profile of receivables, existing market conditions and economic indicators for forward-looking adjustments at the end of each reporting period.

How our audit addressed the Key Audit Matter

We performed the following procedures to address the key audit matter:

- Obtained an understanding of the key management’s internal control and process for the assessment of ECL for trade receivables and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud.
- Evaluated the outcome of prior period assessment of ECL for trade receivables to assess the effectiveness of management’s estimation process.
- Evaluated the appropriateness of the methodology and model as adopted by management for the calculation of credit loss allowance by considering the nature and characteristics of trade debtors;
- Assessed the reasonableness of management’s assessment of ECL by considering the reasonableness of grouping category of trade debtors, checking the accuracy of the aging analysis of trade receivables to invoices and related supporting documentation on a sample basis, and comparing the estimated default rate to existing market data. Evaluated the reasonableness of the economic growth data as selected by management for the forward-looking adjustments on the applied ECL rates by comparing with those as obtained from our research on the macroeconomic data as published in China.

11. Report of the Auditors

PwC ZT Shen Zi (2021) No. 10031

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KEY AUDIT MATTERS (Continued)

Key Audit Matter (Continued)

How our audit addressed the Key Audit Matter (Continued)

Assessment of expected credit losses for trade receivables (Continued)

We focus on this area because of the magnitude of the balance of trade receivables and the assessment of expected credit losses for trade receivables is subject to high degree of estimation uncertainty. The inherent risk in relation to the assessment of expected credit losses for trade receivables is considered significant due to the subjectivity of significant assumptions and estimates used.

- Checked the mathematical accuracy of the calculation of the provision for loss allowance.

Based on the above, we considered that the significant management's judgements and estimates applied in the assessment of expected credit losses for trade receivables were supportable by the evidence obtained and procedures performed.

OTHER INFORMATION

Management of Capital Environmental Protection is responsible for the other information. The other information comprises all of the information included in 2020 annual report of Capital Environmental Protection other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management of Capital Environmental Protection is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing the ability of Capital Environmental Protection to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate Capital Environmental Protection or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Capital Environmental Protection's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of Capital Environmental Protection to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Capital Environmental Protection to cease to continue as a going concern.
- Evaluate the overall presentation (including the disclosures), structure and content of the financial statements and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Capital Environmental Protection to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China

Signing CPA Li Jun
(Engagement Partner)

25 March 2021

Signing CPA Wang Yan

12. Financial Statements Prepared in accordance with PRC Accounting Standards for Business Enterprises Consolidated and Company Balance Sheet

As at 31 December 2020
(All amounts in RMB thousand unless otherwise stated)

ASSETS	Note	31 December 2020 Consolidated	31 December 2019 Consolidated	31 December 2020 Company	31 December 2019 Company
Current assets					
Cash at bank and on hand	4(1)	1,663,646	2,079,613	623,111	741,257
Notes receivable	4(2)	2,656	16,131	–	–
Trade receivables	4(3)/14(1)	1,959,083	2,492,764	1,126,477	1,958,081
Advances to suppliers	4(4)	26,220	38,583	–	1,916
Other receivables	4(5)/14(2)	24,117	65,156	25,883	87,945
Inventories	4(6)	17,460	14,805	5,995	4,811
Current portion of non-current assets	4(8)	20,049	17,224	20,049	17,224
Other current assets	4(7)	82,228	72,504	375,011	478,566
Total current assets		3,795,459	4,796,780	2,176,526	3,289,800
Non-current assets					
Long-term receivables	4(8)	1,647,402	236,450	1,647,402	236,450
Long-term equity investments	4(9)/14(3)	195,000	195,000	4,223,545	4,067,052
Other equity instruments investment	4(10)	2,000	2,000	2,000	2,000
Fixed assets	4(11)	809,495	641,793	148,551	160,912
Construction in progress	4(11)	9,859	159,214	340	699
Intangible assets	4(12)	11,999,818	11,759,442	3,865,856	4,021,934
Deferred income tax assets	4(19)	12,965	4,209	–	–
Other non-current assets	4(7)	330,971	195,919	40,832	115,332
Total non-current assets		15,007,510	13,194,027	9,928,526	8,604,379
TOTAL ASSETS		18,802,969	17,990,807	12,105,052	11,894,179

**12. Financial Statements Prepared in accordance with PRC
Accounting Standards for Business Enterprises
Consolidated and Company Balance Sheet**

As at 31 December 2020
(All amounts in RMB thousand unless otherwise stated)

	Note	31 December 2020 Consolidated	31 December 2019 Consolidated	31 December 2020 Company	31 December 2019 Company
LIABILITIES AND OWNERS' EQUITY					
Current liabilities					
Short-term borrowings	4(16)	–	200,000	–	200,000
Trade payables	4(14)	294,973	231,293	43,558	65,904
Contract liabilities	4(14)	527,410	558,472	4,950	4,950
Taxes payable	4(14)	56,841	86,188	4,688	31,101
Other payables	4(14)	955,773	1,534,014	230,454	417,707
Accrued payroll	4(15)	85,620	66,100	43,202	30,463
Current portion of non-current liabilities	4(16)	1,596,263	852,552	1,536,886	582,872
Other current liabilities	4(16)	–	20,250	70,000	–
Total current liabilities		3,516,880	3,548,869	1,933,738	1,332,997
Non-current liabilities					
Long-term borrowings	4(16)	4,227,894	3,006,756	1,396,472	1,135,632
Debentures payable	4(16)	1,098,848	1,797,389	1,098,848	1,797,389
Long-term payables	4(16)	247,734	262,652	239,134	262,652
Provisions	4(17)	13,737	11,665	11,665	11,665
Deferred income	4(18)	1,981,434	2,059,702	1,524,402	1,593,830
Deferred tax liabilities	4(19)	100,799	125,587	36,085	60,642
Other non-current liabilities	4(16)	34,000	36,000	380,000	670,000
Total non-current liabilities		7,704,446	7,299,751	4,686,606	5,531,810
Total liabilities		11,221,326	10,848,620	6,620,344	6,864,807
Shareholder's equity					
Share capital	4(20)	1,427,228	1,427,228	1,427,228	1,427,228
Capital surplus	4(21)(a)	431,024	431,024	380,788	380,788
Surplus reserve	4(21)(b)	619,054	558,250	619,054	558,250
Undistributed profits	4(21)(c)	4,114,045	3,757,523	3,057,638	2,663,106
Total equity attributable to equity owners of the parent		6,591,351	6,174,025	5,484,708	5,029,372
Minority interests		990,292	968,162	–	–
Total owners' equity		7,581,643	7,142,187	5,484,708	5,029,372
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		18,802,969	17,990,807	12,105,052	11,894,179

The accompanying notes form an integral part of these financial statements.

Liu Yujun
Company representative

Peng Yilin
Person in charge of accounting function

Liu Tao
Person in charge of accounting department

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Consolidated and Company Income Statements

For the year ended 31 December 2020
(All amounts in RMB thousand unless otherwise stated)

Item	Note	2020 Consolidated	2019 Consolidated	2020 Company	2019 Company
1. Revenue	4(22)/14(4)	3,363,874	2,851,453	1,488,207	1,315,292
Less: Cost of sales	4(22)/14(4)	(2,185,119)	(1,939,804)	(927,808)	(853,193)
Taxes and surcharges	4(23)	(48,769)	(45,716)	(22,170)	(15,977)
Selling and distribution expenses	4(24)	(15,879)	(7,075)	–	–
General and administrative expenses	4(24)	(178,078)	(168,661)	(99,280)	(93,500)
Research and development expenses	4(25)	(13,201)	(17,925)	(3,184)	(5,911)
Financial expenses-net	4(26)	(239,100)	(199,396)	(181,111)	(181,342)
Including: interest expense		(272,030)	(213,982)	(204,028)	(184,965)
interest income		23,035	23,951	12,527	12,589
Add: Other income	4(28)	162,410	166,989	119,292	110,181
Investment gains	14(5)	–	–	356,503	219,397
Including: Share of profit of associates		–	–	–	–
Assets impairment losses	4(29)	(34,808)	(26,808)	(12,250)	(7,973)
Credit impairment losses	4(30)	(88,332)	(31,383)	(59,005)	(35,968)
Gains on disposals of assets	4(31)	67	49,997	13	40
2. Operating profit		723,065	631,671	659,207	451,046
Add: Non-operating income	4(32)	1,807	2,469	142	132
Less: Non-operating expenses	4(33)	(6,688)	(4,591)	(2,217)	(2,476)
3. Total profit		718,184	629,549	657,132	448,702
Less: Income tax expenses	4(34)	(112,046)	(100,587)	(49,083)	(37,279)
4. Net profit		606,138	528,962	608,049	411,423
Classified by continuity of operations					
Net profit from continuing operations		606,138	528,962	608,049	411,423
Net profit from discontinued operations		–	–	–	–
Classified by ownership of the equity					
Minority interests		36,099	21,855	–	–
Attributable to equity owners of the Company		570,039	507,107	608,049	411,423
5. Other comprehensive income after deduction of impact of income tax		–	–	–	–
6. Total comprehensive income		606,138	528,962	608,049	411,423
Attributable to equity owners of the Company		570,039	507,107	608,049	411,423
Attributable to minority shareholders		36,099	21,855	–	–
Earnings per share (in RMB Yuan)					
Basic	4(35)	0.40	0.36	–	–
Diluted	4(35)	0.40	0.36	–	–

The accompanying notes form an integral part of these financial statements.

Liu Yujun
Company representative:

Peng Yilin
Person in charge of accounting function:

Liu Tao
Person in charge of accounting department:

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Consolidated and Company Cash Flow Statements

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

Item	Note	2020 Consolidated	2019 Consolidated	2020 Company	2019 Company
1. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		2,384,484	2,876,833	875,856	1,226,904
Refund of taxes and surcharges		92,363	37,583	70,719	14,519
Cash received relating to other operating activities	4(36)(d)	63,459	93,598	26,370	10,837
Sub-total of cash inflows		<u>2,540,306</u>	<u>3,008,014</u>	<u>972,945</u>	<u>1,252,260</u>
Cash paid for goods and services		(1,329,602)	(1,354,251)	(702,473)	(688,794)
Cash paid to and on behalf of employees		(352,037)	(337,860)	(132,294)	(135,146)
Payments of taxes and surcharges		(265,157)	(364,715)	(145,162)	(37,081)
Cash paid relating to other operating activities	4(36)(e)	(61,074)	(66,255)	(27,536)	(35,841)
Sub-total of cash outflows		<u>(2,007,870)</u>	<u>(2,123,081)</u>	<u>(1,007,465)</u>	<u>(896,862)</u>
Net cash flows from operating activities	4(36)(a)	<u>532,436</u>	<u>884,933</u>	<u>(34,520)</u>	<u>355,398</u>
2. Cash flows from investing activities					
Cash received from returns on investments		-	-	358,323	217,577
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	4(36)(f)	623	55,136	147	40
Cash received from subsidiaries		-	-	781,389	1,643,041
Cash received from restricted bank deposits		6,237	19,791	-	14,171
Sub-total of cash inflows		<u>6,860</u>	<u>74,927</u>	<u>1,139,859</u>	<u>1,874,829</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(1,543,318)	(2,058,617)	(191,387)	(249,715)
Cash paid to acquire investments		-	-	(168,743)	(554,320)
Cash paid for restricted bank deposits		(3,914)	(15,445)	(77)	(10,145)
Cash paid to subsidiaries		-	-	(583,894)	(1,251,155)
Sub-total of cash outflows		<u>(1,547,232)</u>	<u>(2,074,062)</u>	<u>(944,101)</u>	<u>(2,065,335)</u>
Net cash flows from investing activities		<u>1,540,372</u>	<u>(1,999,135)</u>	<u>195,758</u>	<u>(190,506)</u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Consolidated and Company Cash Flow Statements

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

Item	Note	2020 Consolidated	2019 Consolidated	2020 Company	2019 Company
3. Cash flows from financing activities					
Cash received from borrowings		2,700,168	2,403,553	1,434,991	956,619
Cash received from capital contributions		18,306	150,715	–	–
Including: Cash received from capital contributions by minority shareholders of subsidiaries		18,306	150,715	–	–
Sub-total of cash inflows		<u>2,718,474</u>	<u>2,554,268</u>	<u>1,434,991</u>	<u>956,619</u>
Cash repayments of borrowings		(1,689,129)	(831,072)	(1,378,750)	(650,000)
Cash payments for distribution of interest expenses		(249,035)	(198,039)	(183,130)	(169,020)
Payments for distribution of dividends or profits		(186,018)	(153,197)	(152,571)	(153,197)
Including: Dividends and profits paid to minority shareholders by subsidiaries		(33,447)	–	–	–
Sub-total of cash outflows		<u>(2,124,182)</u>	<u>(1,182,308)</u>	<u>(1,714,451)</u>	<u>(972,217)</u>
Net cash flows from financing activities		<u>594,292</u>	<u>1,371,960</u>	<u>(279,460)</u>	<u>(15,598)</u>
4. Effect of foreign exchange rate changes on cash		–	–	–	–
5. Net (decrease)/increase in cash		(413,644)	257,758	(118,222)	149,294
Add: Cash at beginning of year		2,066,301	1,808,543	736,182	586,888
6. Cash at end of year	4(36)(c)	<u>1,652,657</u>	<u>2,066,301</u>	<u>617,960</u>	<u>736,182</u>

The accompanying notes form an integral part of these financial statements.

Liu Yujun
Company representative

Peng Yilin
Person in charge of accounting function

Liu Tao
Person in charge of accounting department

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises

Consolidated Statement of Changes in Owners' Equity

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

Item	Note	Attributable to owners of the parent					Total shareholders' equity
		Share capital	Capital surplus	Surplus reserve	Undistributed profits	Minority interests	
Balance at 1 January 2019		1,427,228	431,024	517,107	3,442,844	796,764	6,614,967
Movements for the period ended 31 December 2019							
Total comprehensive income							
Net profit		—	—	—	507,107	21,855	528,962
Total comprehensive income for the year		—	—	—	507,107	21,855	528,962
Capital contribution by shareholders		—	—	—	—	150,715	150,715
Profit distribution							
Appropriation to surplus reserves		—	—	41,143	(41,143)	—	—
Dividend distribution to shareholders		—	—	—	(151,285)	(1,172)	(152,457)
Balance at 31 December 2019		<u>1,427,228</u>	<u>431,024</u>	<u>558,250</u>	<u>3,757,523</u>	<u>968,162</u>	<u>7,142,187</u>
Movements for the period ended 31 December 2020							
Total comprehensive income							
Net profit		—	—	—	570,039	36,099	606,138
Total comprehensive income for the year		—	—	—	570,039	36,099	606,138
Capital contribution by shareholders		—	—	—	—	18,306	18,306
Profit distribution							
Appropriation to surplus reserves		—	—	60,804	(60,804)	—	—
Dividend distribution to shareholders	4(21)(c)	—	—	—	(152,713)	(32,275)	(184,988)
Balance at 31 December 2020		<u>1,427,228</u>	<u>431,024</u>	<u>619,054</u>	<u>4,114,045</u>	<u>990,292</u>	<u>7,581,643</u>

The accompanying notes form an integral part of these financial statements.

Liu Yujun
Company representative

Peng Yilin
Person in charge of accounting function

Liu Tao
Person in charge of accounting department

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Company Statement of Changes in Owners' Equity

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

Item	Share capital	Capital surplus	Surplus reserve	Undistributed profits	Total shareholders' equity
Balance at 1 January 2019	1,427,228	380,788	517,107	2,444,111	4,769,234
Movements for the period ended 31 December 2019					
Total comprehensive income					
Net profit	—	—	—	411,423	411,423
Total comprehensive income for the year	—	—	—	411,423	411,423
Profit distribution					
Appropriation to surplus reserves	—	—	41,143	(41,143)	—
Dividend distribution to shareholders	—	—	—	(151,285)	(151,285)
Balance at 31 December 2019	<u>1,427,228</u>	<u>380,788</u>	<u>558,250</u>	<u>2,663,106</u>	<u>5,029,372</u>
Movements for the period ended 31 December 2020					
Total comprehensive income					
Net profit	—	—	—	608,049	608,049
Total comprehensive income for the year	—	—	—	608,049	608,049
Profit distribution					
Appropriation to surplus reserves	—	—	60,804	(60,804)	—
Dividend distribution to shareholders	—	—	—	(152,713)	(152,713)
Balance at 31 December 2020	<u>1,427,228</u>	<u>380,788</u>	<u>619,054</u>	<u>3,057,638</u>	<u>5,484,708</u>

The accompanying notes form an integral part of these financial statements.

Liu Yujun
Company representative

Peng Yilin
Person in charge of accounting function

Liu Tao
Person in charge of accounting department

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

1 GENERAL INFORMATION

Tianjin Capital Environmental Protection Group Company Limited (the “Company”) was established on the basis of Tianjin Bohai chemical industry (Group) Co., Ltd. (“Bohai Chemical Industry”). Bohai Chemical Industry was established on 8 June 1993 in Tianjin, the People’s Republic of China (the “PRC”), listed in Hong Kong Stock Exchange (“H share”) in May 1994 and Shanghai Stock Exchange (“A share”) in June 1995. Bohai Chemical Industry appeared significant losses in 1998 and 1999. Approved by Tianjin Government, the Company had completed the equity and assets reorganization of Bohai Chemical Industry at the end of year 2000. The address of the Company’s registered office is No.45 Guizhou Road, Heping District, Tianjin. The parent company and ultimate holding company of the Company are Tianjin Municipal Investment Co., Ltd. (“Municipal Investment”) and Tianjin City Infrastructure Construction and Investment Group Co., Ltd. (“City Infrastructure Construction and Investment”), respectively. As at 31 December 2020, the Company’s total share capital is RMB1,427 million with a par value of RMB1 per share.

The principal activities of the Company and its subsidiaries (the “Group”) include processing of sewage water, supply of tap water and recycled water, supply of heating and cooling, hazardous waste treatment and construction and management of related facilities as described below:

(a) Processing of sewage water

Pursuant to relevant agreements (“Service concession right agreements”), the Group currently provides sewage water processing services via the following plants:

Location	Agreement date	Authorized by
Guiyang, Guizhou	16 September 2004	Guiyang City Administration Bureau
Baoying, Jiangsu	13 June 2005	Baoying Construction Bureau
Chibi, Hubei	15 July 2005	Chibi Construction Bureau
Fuyang, Anhui	18 December 2005	Fuyang Construction Committee
Qujing, Yunnan	25 December 2005	Qujing Construction Bureau (Renamed Qujing Housing and Urban Construction Bureau)
Honghu, Hubei	29 December 2005	Honghu Construction Bureau
Hangzhou, Zhejiang	20 November 2006	Hangzhou Sewage Company (Changed to Hangzhou Municipal Facilities Supervision Center)
Jinghai, Tianjin	12 September 2007	Tianjin Tianyu Science Technology Park
Wendeng, Shandong	19 December 2007	Wendeng Construction Bureau
Xi’an, Shaanxi	18 March 2008	Xi’an Infrastructure Investment Group
Xianning, Hubei	16 October 2008	Xianning Construction Committee
Yingdong, Anhui	10 August 2009	Fuyang Yingdong Construction Bureau
Ninghe, Tianjin	21 September 2010	Management Committee of Modern Industrial Zone of Ninghe
Qujing, Yunnan	16 August 2011	Qujing Housing and Urban Construction Bureau
Chaohu, Anhui	25 August 2011	Hanshan Housing and Urban Construction Bureau
Jingu, Tianjin	18 February 2014	Tianjin Urban-rural Construction Commission (“TUCC”) and Tianjin Water Authority Bureau (“TWAB”)
Xianyanglu, Tianjin	18 February 2014	TUCC and TWAB

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

1 GENERAL INFORMATION (Continued)

(a) Processing of sewage water (Continued)

Pursuant to relevant agreements (“Service concession right agreements”), the Group currently provides sewage water processing services via the following plants: (Continued)

Location	Agreement date	Authorized by
Dongjiao, Tianjin	18 February 2014	TUCC and TWAB
Beicang, Tianjin	18 February 2014	TUCC and TWAB
Yingshang, Anhui	16 June 2016	Yingshang Housing and Urban Construction Bureau
Karamay, Xinjiang	4 November 2016	Karamay Construction Bureau
Linxia, Gansu	13 May 2017	Linxia Housing and Urban Construction Bureau
Ningxiang, Changsha	5 June 2017	Ningxiang Economic and Technological Development Zone Management Committee
Hefei, Anhui	16 June 2017	Hefei Urban Construction Committee
Dalian, Liaoning	1 November 2017	Dalian Urban Construction Bureau
Bayannur, Inner Mongolia	12 December 2017	Bayannur Water Bureau and Bayannur Hetao Water Group Company, Ltd
Ningxiang, Changsha	27 April 2018	Ningxiang Economic and Technological Development Zone Management Committee
Honghu, Hubei	9 June 2018	Honghu Housing and Urban Construction Bureau
Shibing, Guizhou	12 July 2018	Shibing Water Bureau
Hefei, Anhui	28 November 2018	Hefei Urban Construction Committee
Deqing, Zhejiang	1 January 2019	Deqing Qianyuan Municipal Government
Gaocheng, Hebei	2 April 2019	Hebei Gaocheng Economic and Technological Development Zone Management Committee
Jiuquan, Gansu	22 June 2019	Jiuquan Suzhou Municipal Government
Yingdong, Fuyang	26 August 2019	Fuyang Urban-rural Construction Commission
Huoqiu, Anhui	2 January 2020	Huoqiu Housing and Urban Construction Bureau
Huize, Yunnan	24 February 2020	Huize Housing and Urban Construction Bureau

The Group provides sewage treatment services in accordance with the Concession Agreements and is entitled to charge for the service based on a pre-determined rate.

(b) Supply of tap water

Pursuant to relevant agreements, the Group provides tap water supply service initially at the pre-determined rate and the price as pre-determined may be revised subsequently taking into account various cost factors.

(c) Recycled water business

The Group’s recycled water business includes developing, constructing and operating of recycled water projects, production and sale of recycled water, and provision of related research and development and technical consultation services.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

1 GENERAL INFORMATION (Continued)

(d) Heating and cooling supply services

The heating and cooling supply services include design, construction, operations and transfer of centralized heating and cooling infrastructures, and provision of heating and cooling services.

(e) Hazardous waste treatment

Hazardous treatment include hazardous and solid waste treatment. Currently, the Group conducts the disposal by way of incineration, landfill, physicochemical and curing treatment. Adoption of treatment method tailored to the local help to realize the aim of harmless, resource and reduction.

(f) Subsidiaries included in the scope of consolidation for the year and newly consolidated subsidiaries are set out in Note 5 and Note 6.

(g) These financial statements were approved by the Company's Board of Directors on 25 March 2021.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group determines the specific accounting policies and accounting estimates according to the production management characteristics, which are mainly reflected in the measurement of expected credit losses of receivables and contract assets (Note 2(8)), depreciation and amortization of fixed assets and intangible assets (Note 2(11) and (14)), timing of revenue recognition (Note 2(20)) and so on.

Key assumption adopted by the Group in determining significant accounting policies are set out in Note 2(25).

(1) Basis of preparation

The financial statements are prepared in accordance with the *Accounting Standard for Business Enterprises – Basic Standard*, and the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (hereafter collectively referred to as “the Accounting Standards for Business Enterprises” or “CAS”) and *Circular of the China Securities Regulatory Commission on the Issuing of the Rules for the Information Disclosure and Compilation of Companies Publicly Issuing Securities No. 15 – General Provisions on Financial Statements*.

The financial statements are prepared on a going concern basis.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(2) Statement of compliance with Accounting Standard for Business Enterprise

The financial statements of the Company for the year ended 31 December 2020 are in compliance with the Accounting Standard for Business Enterprise and truly and completely present the consolidated and the Company's financial position of the Company as of 31 December 2020 and of their financial performance, cash flows and other information for the year then ended.

(3) Accounting year

The Company's accounting year starts on 1 January and ends on 31 December.

(4) Recording currency

The Company's recording currency is Renminbi (RMB). The recording currency of the Company's subsidiaries is determined based on the primary economic environment in which they operate, and except the recording currency of Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd. which is HK dollar, the remaining subsidiary companies' recording currency is RMB. The financial statements are presented in RMB.

(5) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases.

In preparing the consolidated financial statements, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company during the preparation of the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and subsidiaries. For subsidiaries acquired from business combinations not under common control, the financial statements are adjusted based on the fair value of the identifiable net assets at the acquisition date.

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(5) Preparation of consolidated financial statements (Continued)

All significant intra-group balances, transactions and unrealized profits are eliminated in the consolidated financial statements. The portion of subsidiaries' equity and the portion of a subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to Company are recognised as minority interests and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively. Unrealized profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to owners of the parent. Unrealized profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to owners of the parent and minority interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealized profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and minority interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealized profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and minority interests in accordance with the allocation proportion of the parent in the subsidiary.

If the accounting treatment of a transaction which considers the Group as an accounting entity is different from that considers the Company or its subsidiaries as an accounting entity, it is adjusted from the perspective of the Group.

(6) Cash

Cash comprise cash on hand and deposits that can be readily drawn on demand.

(7) Foreign currency translation

(a) Foreign currency transactions

Foreign currency transactions are translated into recording currency using the exchange rates prevailing at the dates of the transactions.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(7) Foreign currency translation (Continued)

(a) Foreign currency transactions (Continued)

At the balance sheet date, monetary items denominated in foreign currencies are translated into recording currency using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current year, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition or construction of qualifying assets, which are capitalized as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(b) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the shareholders' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates of the transaction dates. The differences arising from the above translation are presented in other comprehensive income. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(8) Financial instruments

Financial instruments refer to the contracts that form one party's financial assets and form other parties' financial liabilities or equity instruments. The Group recognise financial assets or financial liabilities when become one party of the financial instruments contracts.

(a) Financial assets

(i) Classification and measurement

Based on the business model for financial asset management and the contractual cash flow characteristics of financial assets, the Group classifies the financial assets into: (1) financial assets measured at amortised cost; (2) financial assets measured at fair value and through other comprehensive income; (3) financial assets measured at fair value and through profit or loss.

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Financial instruments (Continued)

(a) Financial assets (Continued)

(i) Classification and measurement (Continued)

Financial assets are initially recognised at fair value. For financial assets at fair value through profit and loss, the related transaction costs are directly recognised in profit or loss. For other financial assets, the related transaction costs are included in initially recognised amounts. Notes or trade receivables arising from sales of products or rendering of services (excluding or without regard to significant financing components) are initially recognised at the consideration that is entitled to be charged by the Group as expected.

Debt instruments

Debt instruments held by the Group are those meet the definition of a financial liability from the issuer's perspective and are measured at the following methods:

Measured at amortised cost:

The Group's business model for financial asset management aims to receive contractual cash flows. The contractual cash flow characteristics of such financial assets are consistent with basic loan arrangement, which means the cash flow generated at certain date is only the payment for the principal and the corresponding interest based on unpaid principal. The interest income of such financial assets is recognised using the effective interest method. The Group's financial assets mainly include cash at bank and on hand, Notes receivable, trade receivables, other receivables, and long-term receivables long-term receivables with maturities no more than one year (inclusive) at the balance sheet date are included in the current portion of non-current assets.

Equity instruments

The Group designates non-traded investments in equity instrument as financial assets at FVOCI, and present as other investments in equity instrument. Relevant dividend income of these financial assets are recognised in profit or loss.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Financial instruments (Continued)

(a) Financial assets (Continued)

(ii) Impairment of financial assets

The Group recognises the loss provision based on expected credit losses (“ECL”) for financial assets and contract assets measured at amortised cost.

The Group calculates the probability weighted amount of the present value of differences between the cash flows receivable by the contract and the cash flows expected to be received, and recognises the ECL by considering the reasonable and well-founded information on past events, current conditions and forecasts of future economic conditions, taking the risk of default as a weight.

As at each balance sheet date, the Group measures the ECL of financial instruments at different stages respectively. Financial instrument that had no significant increase in credit risk since initial recognition belongs to “Stage 1”, and the Group makes loss provision based on the ECL in the following 12 months. Financial instrument that had a significant increase but with no credit impairment since initial recognition belongs to “Stage 2”, and the Group makes the loss provision based on the lifetime ECL. Financial instrument that suffered credit impairment since initial recognition belongs to “Stage 3”, and the Group makes the loss provision based on the lifetime ECL.

For the financial instrument with lower credit risk on the balance sheet date, the Group assumes that its credit risk had no significant increase since initial recognition, and makes the loss provision based on the ECL in the following 12 months.

For financial instruments belonging to “Stage 1”, “Stage 2” and those with lower credit risk, the interest income is calculated based on its carrying amount (including impairment provision) and effective interest rate. For the financial instrument belonging to “Stage 3”, the interest income is calculated based on the amortised cost (which is made after carrying amount less the impairment provision) and effective interest rate.

For notes receivable, trade receivables and contract assets, regardless of existence of the significant financing component, the Group makes the loss provision according to the lifetime ECL. For lease receivables, the Group makes the loss provision according to the lifetime ECL as well.

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Financial instruments (Continued)

(a) Financial assets (Continued)

(ii) Impairment of financial assets (Continued)

When the expected credit loss cannot be assessed at a reasonable cost for an individual financial asset, the Group divides receivables into certain groupings based on credit risk characteristics, then pursuant to which, calculates the ECL. Basis for grouping is as follows:

Banker's acceptance notes group	Banker's acceptance from bank under low risk
Government clients group	Government clients except those in provincial capitals and municipalities
Other clients group	Other clients
Project deposit group	Project deposits
Others group	Other receivables excluding VAT refund and project deposits

For trade receivables, lease receivables that are classified into above groupings and notes receivables arising from sale of goods or rendering of services,, the Group calculates ECL using exposure at default ("EAD") and lifetime ECL rate with reference to historical credit loss experience, in combination with the current situation and forecasts of future economic conditions. Other types of notes receivables and other receivables that are classified into above groupings, the Group calculates ECL using EAD and lifetime ECL rate or ECL rate in the following 12 months with reference to historical loss experience, in combination with the current situation and forecasts of future economic conditions.

The Group included the provision for or reversal of loss provision into profit or loss.

(iii) Derecognition of financial assets

A financial asset is derecognised when any of the below criteria is met: (1) the contractual rights to receive the cash flows from the financial asset expire; (2) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; (3) the financial asset has been transferred and the Group has not retained control of the financial asset, although the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Financial instruments (Continued)

(a) Financial assets (Continued)

(iii) Derecognition of financial assets (Continued)

On derecognition of other investments in equity instrument, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognised directly in other comprehensive income, is recognised in retained earnings; on derecognition of other financial assets, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognised directly in other comprehensive income, is recognised in profit or loss.

(b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities measured at amortised cost and financial liabilities at fair value through profit or loss.

The Group's financial liabilities mainly refer to financial liabilities measured at amortised cost, including trade payables, other payables, borrowings and debentures payable. Such financial liabilities are initially recognised at fair value, net of transaction costs incurred, and subsequently measured using effective interest method. Financial liabilities of which the period is within one year (inclusive) are classified as the current liabilities; the period is over one year while will be due within one year (inclusive) since the balance sheet date are classified as current portion of non-current liabilities; and the others are classified as non-current liabilities.

A financial liability is derecognised when all or part of the obligation is extinguished. The difference between the carrying amount of a financial liability extinguished and the consideration paid, shall be recognised in profit or loss.

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Financial instruments (Continued)

(c) *Determination of fair value of financial instruments*

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. In valuation, the Group adopts valuation techniques applicable in the current situation and supported by adequate available data and other information, selects inputs with the same characteristics as those of assets or liabilities considered in relevant transactions of assets or liabilities by market participants, and gives priority to the use of relevant observable inputs. When relevant observable inputs are not available or feasible, unobservable inputs are adopted.

(9) Inventories

(a) *Classification*

Inventories include raw materials, finished goods, spare parts and low cost consumables, and are measured at the lower of cost and net realizable value.

(b) *Costing of inventories*

Costs for raw materials, finished goods and low cost consumables are determined using the weighted average method. The cost of finished goods comprises raw materials, direct labor and systematically allocated production overhead based on the normal production capacity.

(c) *Basis for determining net realizable values of inventories and method for making provision for decline in the value of inventories*

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realizable value. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Inventories (Continued)

- (d) The Group adopts the perpetual inventory system.
- (e) Spare parts and low cost consumables are expensed when used.

(10) Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, and the Group's long-term equity investments in its joint ventures and associates.

Subsidiaries are the investees over which the Company is able to exercise control. Associate are the investee over which the Group has significant influence on their financial and operating policy decisions.

Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements. Investments in joint ventures and associates are accounted for using the equity method.

(a) *Determination of investment cost*

For long-term equity investment acquired from business combinations not under common control, the cost of the combination is the investment cost of the long-term equity investment.

For long-term equity investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid.

For the long-term equity investment obtained by means other than business combination, the long-term equity investment obtained by paying cash shall be regarded as the initial investment cost according to the purchase price actually paid; for the long-term equity investment obtained by issuing equity securities, it shall be recognized as the initial investment cost according to the fair value of issuing equity securities.

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(10) Long-term equity investments (Continued)

(b) *Subsequent measurement and recognition of related profit and loss*

Long-term equity investments accounted for using the cost method, are measured at the initial investment costs. Cash dividends or profit distribution declared by the investees are recognised as investment income in profit or loss.

Long-term equity investments accounted for using the equity method, where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost; where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current year and the cost of the long-term equity investment is adjusted upwards accordingly.

Under the equity method of accounting, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group does not recognise further losses when the carrying amounts of the long-term equity investment together with any long-term interests that, in substance, form part of the Group's net investment in investees are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognising the investment losses and the provisions at the amount it expects to undertake. The Group's share of the changes in investee's owner's equity other than those arising from the net profit or loss, other comprehensive income and profit distribution is recognised in capital surplus with a corresponding adjustment to the carrying amounts of the long-term equity investment. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by the investees. Unrealised gains or losses on transactions between the Group and its investees are eliminated to the extent of the Group's equity interest in the investees, based on which the investment income or losses are recognised. Any losses resulting from transactions between the Group and its investees, which are attributable to asset impairment losses are not eliminated.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(10) Long-term equity investments (Continued)

(c) *Basis for determination of control and significant influence over investees*

Control is the right over the investee that entitles enjoy variable returns from their involvement in the investee and the ability to exert the right to affect those returns.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

(d) *Impairment of long-term equity investments*

The carrying amounts of long-term equity investments in subsidiaries, joint ventures and associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(16)).

(11) Fixed assets

(a) *Recognition and initial measurement of fixed assets*

Fixed assets comprise buildings and structures, machinery and equipment, motor vehicles and others.

Fixed assets are recognised when it is probable that the related economic benefits will flow to the Group and the costs can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the acquisition date.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss in the year in which they are incurred.

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(All amounts in RMB yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Fixed assets (Continued)

(b) Depreciation methods of fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated net residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings and structures	10-50 years	0%-5%	1.9%-10%
Machinery and equipment	10-20 years	0%-5%	4.8%-10%
Motor vehicles and others	5-10 years	0%-5%	9.5%-20%

Plants and pipelines network are included in buildings with estimated useful lives of 25 years.

The estimated useful life and the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

(c) The carrying amount of a fixed asset is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2(16)).

(d) Disposal of fixed assets

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current year.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(12) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. The carrying amount of construction in progress is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2(16)).

(13) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of an asset that needs a substantially long period of time for its intended use commence to be capitalized and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowing costs incurred thereafter are recognised in profit or loss for the current year. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For the specific borrowings obtained for the acquisition or construction of an asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest income earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of an asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which the estimated future cash flows during the period of expected duration of the borrowings or applicable shorter period are discounted to the initial amount of the borrowings.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Intangible assets

Intangible assets include land use rights, concession rights, technical know-how and software, and are measured at cost.

(a) Land use rights

Land use rights are amortized on the straight-line basis over their approved use period of 25-50 years. If the acquisition costs of the land use rights and the buildings and structures located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

(b) Concession rights

As described in Note 1(a) and (d), the Group cooperates with government or its subsidiaries in the development, financing, operation and maintenance of facilities for public services (concession services) over a specified period of time (concession service period). The Group has access to operating the facilities and providing concession services in accordance with the terms specified in the arrangement, and transfers the facilities to the government at the end of the concession service period.

The *Service concession right agreement* sets out performance standards and price adjustment mechanism to clarify the scope of concession services of the Group. The concession service arrangement is within the scope of *Interpretations of Accounting Standards for Business Enterprises No.2*, such assets under the concession arrangement can be recognised as intangible assets or financial assets. The operator shall recognise an intangible asset to the extent that it receives a right (concession) to charge users of the public service and shall recognise a financial asset to the extent that it receives unconditional payments or guarantee for minimum charge from the approving authority. Rights in relation to concession services are recognised as intangible assets- concession rights by the Group, which are amortized on a straight-line basis over the terms of operation ranging from 20 to 30 years.

(c) Technical know-how and software

Separately acquired technical know-how and software are shown at historical cost. Technical know-how and software has a finite useful life and is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of technical know-how and software over their useful lives.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Intangible assets (Continued)

(d) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

(e) Research and development

Expenditures for internal research and development projects are classified into research phase expenditures and development phase expenditures according to their nature and whether the intangible assets ultimately formed by research and development activities have greater uncertainty.

Expenditures for the planned investigation, evaluation and selection phases for the study of the production process are expenditures for the research phase, which are included in the current profit and loss when incurred; prior to mass production, expenditure in the relevant design and testing phases for the final application of the environmental protection equipment production process is capitalized during the development phase, while meeting the following conditions:

- The development of the environmental protection equipment production has been fully demonstrated by the technical team;
- Management has approved the budget for environmental protection equipment production development;
- Research and analysis of previous market research indicates that the products produced by the environmental protection equipment production have marketing capabilities;
- Adequate technical and financial support for the development of the environmental protection equipment production and subsequent mass production; and
- Expenditure on environmental protection equipment production development can be reliably collected.

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(All amounts in RMB yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Intangible assets (Continued)

(e) *Research and development* (Continued)

Expenditure in the development phase that does not meet the above conditions is recognised in profit or loss in the period in which it is incurred. Development expenditures that have been charged to profit or loss in the previous period are not reconfirmed as assets in subsequent periods. Expenditures that have been capitalized during the development phase are listed as development expenditures on the balance sheet and are converted to intangible assets from the date the project reaches its intended use.

(f) *Impairment of intangible assets*

The carrying amount of intangible assets is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2(16)).

(15) Non-monetary asset exchange

Non-monetary asset exchange refers to the exchange of non-monetary assets, such as fixed assets, intangible assets, investment properties, and long-term equity investments. The exchange does not involve or only involves a small amount of monetary assets (i.e. premiums). The exchange of non-monetary assets without commercial substance shall be measured on the basis of book value. For the assets to be swapped in, the enterprise shall use the book value of the assets to be swapped out and the relevant taxes and fees payable as the initial measurement amount of the assets to be swapped in; for the swapped out assets, no profit or loss is recognized when the assets are derecognized. For non-monetary asset exchanges that are measured on the basis of book value, and multiple assets are exchanged in or out at the same time, for multiple assets that are exchanged at the same time, the assets will be exchanged in accordance with the relative proportion of the fair value of each asset being exchanged. The total book value (involving the premium, plus the book value of the premium paid or the fair value of the premium received) is apportioned to the assets transferred, plus the relevant taxes and fees payable, as the initial measurement amount of the asset swapped in. If the fair value of the assets to be exchanged cannot be measured reliably, the book value of the assets to be exchanged may be apportioned according to the relative proportion of the original book value of the assets to be exchanged or other reasonable proportions. For multiple assets that are swapped out at the same time, no profit or loss is recognized when the swapped out assets are derecognized.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(16) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, investment properties measured using the cost model and long-term equity investments in subsidiaries, joint ventures and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date; intangible assets which are not available for their intended use are tested at least annually for impairment, irrespective of whether there is any indication that it may be impaired. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(17) Employee benefits

Employee benefits refer to all forms of consideration or compensation given by the Group in exchange for service rendered by employees or for termination of employment relationship, which include short-term employee benefits and post-employment benefits.

(a) Short-term employee benefits

Short-term employee benefits include wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. The Short-term employee benefit liabilities are recognised in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current year or the cost of relevant assets. Non-monetary benefits are measured at their fair value.

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(All amounts in RMB yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(17) Employee benefits (Continued)

(b) *Post-employment benefits*

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Group's post-employment benefits mainly include basic pensions and unemployment insurance, both of which belong to the defined contribution plans.

Basic pensions

The Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to the bases and percentage prescribed by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current year or the cost of relevant assets.

(18) Dividends distribution

Cash dividends are recognised as liabilities for the period in which the dividends are approved by the shareholders' meeting.

(19) Provisions

Provisions for maintenance of the sewage water processing facilities are recognised when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(19) Provisions (Continued)

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

The provisions expected to be settled within one year since the balance sheet date are classified as other current liabilities.

(20) Revenue

The sales are recognised when control of the products or services has been transferred, and the amount is determined in accordance with the consideration received or receivables by authority. Revenue is stated net of discounts, rebates and returns.

(a) *Processing of sewage water and heating and cooling supply services*

Revenues from processing of sewage water and heating and cooling supply services are recognised when services are rendered. Sewage treatment service income and cooling and heating income are a series of single obligations with the same substance and transfer mode, which can be clearly distinguished. The group issues bills to customers according to the fixed unit price, sewage treatment capacity and cooling and heating area, and the income is recognized according to the amount of bills issued.

(b) *Sales of tap water and recycled water*

Revenues from sales of tap water and recycled water are recognised when services are rendered. Sales of tap water and recycled water are a series of single obligations with the same substance and transfer mode, which can be clearly distinguished. The group issues bills to customers according to the fixed unit price and water supply quantity, and the income is confirmed according to the amount of bill.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(20) Revenue (Continued)

(c) *Sales of pipeline connection for recycled water*

The Group provides the pipeline connection for recycled water services, and recognises the income within a period of time according to the proportion of completed achievements to the total results agreed in the contract. On the balance sheet date, the Group reestimates the proportion of completed achievements to enable it to reflect changes in performance.

When the Group recognises its income in accordance with the progress of completing projects, the part of the Group's obtained unconditional collection right is confirmed as receivables, the rest is confirmed as contract assets, and the impairment loss provision is confirmed on the basis of ECL for receivables and contract assets (Note 2(8)). If the amount received or receivable by the Group exceeds the amount of completed works, the excess shall be recognised as contract liabilities and the Group shall list the assets and liabilities under the same contract on a net basis.

Contract costs include the performance cost and acquisition cost. The cost of providing pipeline connection identified as the contract implementation costs and the cost is recognised as operating cost according to the completing schedule included in the carrying forward cost of labor when recognise income. The incremental cost incurred by the Group to obtain the contract for the connection of water pipes is recognised as the contract acquisition cost. For the cost obtained in the contract with the amortization period of less than one year, the cost obtained by the contract shall be recorded into the current profit and loss when it occurs; for the cost obtained in the contract with the amortization period of more than one year, the Group shall, in accordance with the relevant contract, recognise the same basic amortization as the income of the project connected to the recycled water pipeline into profit and loss. If the Book Value of the contract cost is higher than the residual consideration expected to be obtained by providing the project minus the estimated cost to be incurred, the Group shall prepare the impairment provision for the excess part and recognise it as the impairment loss of assets. On the balance sheet date, the Group shall list the inventory and other non-current assets respectively according to whether the amortization period of the contract performance cost exceeds one year when it is initially recognised, so as to reduce the net amount after the relevant asset impairment provision. For the contract acquisition cost whose amortization period is longer than one year when the initial recognition is made, the net amount after the relevant asset impairment provision is deducted and listed as other non-current assets.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(20) Revenue (Continued)

(d) *Sales of environmental protection equipment*

If the stage of completion can be measured reliably, revenue and cost are recognised by reference to the percentage of completion of the contract activity at the balance sheet date. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs of each contract. Variations in contract work, claims and incentive payments are included to the extent that it is probable that they will result in revenue and they are capable of being reliably measured. The environmental protection equipment is mainly the achievement of technology research.

(e) *Hazardous waste processing income*

The Group provides hazardous and general solid waste treatment, of which the residence time of incineration treatment in the waste kiln is 30-120 minutes, and the disposal cycle of landfill treatment waste is within one week. The Group recognises the income when service is provided according to the actual processing amount of waste and the price agreed on the contract.

(f) *Contract operation income*

Revenue from contract operation is based on the service agreement. The revenue of a fixed total amount contract is recognized during the service period evenly. For contracts with agreed unit price of services, revenue shall be recognized during the period of service provision according to the quantity of services provided

(g) *Technical services income*

Technical service revenue shall be recognized within the service provision period specified in the contract according to the service unit price and the actual service quantity provided in the contract.

(21) Government grants

Government grants refer to the monetary assets obtained by the Group from the government, including tax return, financial subsidy and etc.

Government grants are recognised when the grants can be received and the Group can comply with all attached conditions. If a government grant is a monetary asset, it will be measured at the amount received or receivable.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(21) Government grants (Continued)

Government grants related to assets refer to government grants which are obtained by the Group for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

The Group recognises government grants related to assets as deferred income and amortizes in profit or loss in a reasonable and systematic manner over the useful lives of related assets. Government grants related to income that compensate the future costs, expenses or losses are recorded as deferred income and recognised in profit or loss, or deducted against related costs, expenses or losses in reporting the related expenses; government grants related to income that compensate the incurred costs, expenses or losses are recognised in profit or loss, or deducted against related costs, expenses or losses directly in current year.

The Group applies the presentation method consistently to the similar government grants in the financial statements.

Government grants that are related to ordinary activities are included in operating profit, otherwise, they are recorded in non-operating income or expenses.

For the policy loans with favorable interest rates, the Group records the loans at the actual amounts and calculates the interests by loan principals and the favorable interest rates. The interest subsidies directly received from government are recorded as a reduction of interest expenses.

(22) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(22) Deferred tax assets and deferred tax liabilities (Continued)

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilized.

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, associates and joint ventures will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilized, the corresponding deferred tax assets are recognised.

Deferred tax assets and liabilities are offset when:

- The deferred taxes are related to the same tax payer within the Group and the same taxation authority; and,
- That tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

(23) Leases

A lease is a contract whereby the lessor assigns the right to use the asset to the lessee for consideration within a certain period of time.

The Group Acts as a lessor

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. An operating lease is a lease other than a finance lease.

(a) *Operating leases*

While the Group leases buildings and structures out, rental income under an operating lease is recognised on a straight-line basis over the period of the lease. Variable rental income that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(24) Segment information

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

(25) Critical accounting estimates and judgements

The Group continually evaluates the critical accounting estimates and key judgements applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) *Critical judgments in applying the accounting policies*

(i) Judgment of non-monetary assets exchange not having commercial essence

The exchange of non-monetary assets that meets one of the following conditions has commercial essence: (1) the future cash flow of the assets received is significantly different from that of the assets exchanged out in terms of risk, time distribution or amount; (2) the present value of the expected future cash flow generated by the use of the assets received is different from that of the assets exchanged out, and the difference is significant compared with the fair value of the assets received and the assets exchanged out.

The relocation and non-monetary assets exchange arrangements of Xianyang Road sewage treatment plant and Dongjiao sewage treatment plant of the group are carried out in accordance with the instructions of Tianjin municipal government. The assets exchanged in and out are the same kind of assets, and the group's risks and rewards did not change significantly, so the exchange of non-monetary assets has no commercial essence.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(25) Critical accounting estimates and judgements (Continued)

(b) Critical accounting estimates and key assumptions

The critical accounting estimates and key judgement that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are outlined below:

(i) The measurement of ECL

The Group recognises the loss provision based on expected credit losses (“ECL”) and default exposure. ECL is determined by probability of default and loss rate of default. In determining the ECL, the Group uses internal historical credit loss experience, and adjusts the historical data in combination with the current situation and forward-looking information.

In considering forward-looking information, the Group considers different macroeconomic scenarios. For the year of 2020, the weighting for the “benchmark”, “adverse” and “favourable” economic scenarios is 50%, 25% and 25% respectively. The Group regularly monitors and reviews important macroeconomic assumptions and parameters relevant to the calculation of expected credit losses, including the risk of economic downturn, changes in gross domestic product, external market conditions and customer conditions. The Group regularly monitors and reviews assumptions relating to the calculation of expected credit losses. In 2020, the Group has taken into account the uncertainty caused by the COVID-19 outbreak and updated the relevant assumptions and parameters accordingly. The key macroeconomic parameters used in each scenario are listed below. The above estimation techniques and key assumptions have not changed significantly in 2020.

	The economic situation		
	Benchmark	Adverse	Favourable
Estimated GDP in China	5.5%	4.5%	7.0%

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(All amounts in RMB yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(25) Critical accounting estimates and judgements (Continued)

(b) Critical accounting estimates and key assumptions (Continued)

(ii) Income tax and Deferred income tax

The Group is subject to income taxes in numerous jurisdictions. There are some transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Group in determining the provision for income taxes in each of these jurisdictions. Where the final identified outcome of these tax matters is different from the initially-recorded amount, such difference will impact the income tax expenses and deferred income tax in the period in which such determination is finally made.

As mentioned in Note 3(2), some subsidiaries of the Group are high-tech enterprises. The qualification of high-tech enterprises are for an initial term of three years. After the termination of the qualification, it is necessary to submit a new application to the relevant government departments for the high-tech enterprises status renewal. According to historical status renewal experience and the actual situation of each subsidiaries in the past, the Group believes the subsidiaries can continue to obtain the approval for the renewal of the status of being high-tech enterprises. Hence, the Group calculates subsidiaries' corresponding deferred income tax at the preferential rate of 15%. If some of the subsidiaries' renewal application has not been approved after the expiry of the high-tech enterprises status, the income tax shall be calculated at the statutory tax rate of 25%. Deferred income tax assets, deferred income tax liabilities will be affected.

The Group recognizes the corresponding deferred income tax asset to the extent that it is likely to obtain the taxable income amount to offset the deductible loss in the future period. The taxable income obtained in future periods shall include the taxable income that can be realized by the Group through normal production and business activities, and the taxable income that will be increased when the taxable temporary differences arising from previous periods are reversed in future periods. The Group needs to use estimation and judgment when determining the time and amount of taxable income to be generated in the future period. Any discrepancy between the actual situation and the estimate may result in an adjustment to the carrying value of the deferred income tax assets.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(25) Critical accounting estimates and judgements (Continued)

(b) Critical accounting estimates and key assumptions (Continued)

(iii) Impairment of long-term assets

The Group determines at each balance sheet date whether there is any indication that assets may be impaired. When the current market price of assets decreases significantly compared with the expected significant decline due to the passage of time or normal use and the economic, technological, or legal environment in which the Group operates has undergone major adverse changes recently; market interest rates or other market investment returns increase which affects the discount rate of the present value of future cash flows and the assets are obsolete or has been damaged or has become idle, the Group considers that there are signs of asset impairment. At each balance sheet date, the Group will evaluate the recoverable amount of the long-term assets that have shown signs of impairment. The assessment of the recoverable amount requires the Group to estimate the future cash flow and other conditions. When accounting estimates change, the book value of long-term assets and the amount included in asset impairment losses will also change. Once the impairment provision is accrued, it cannot be reversed.

(26) Significant changes in accounting policies

The Ministry of Finance promulgated the question and answer on the implementation of accounting standards for business enterprises in 2020 (issued on 11 December, 2020). The group has adopted above document to prepare the financial statements for 2020, which has no impact on the presentation of the financial statements of the group and the company.

3 TAXATION

(1) The main categories and rates of taxes applicable to the Group are set out below:

Category	Tax base	Tax rate
Enterprise income tax	Taxable income	0%-25%
Value added tax ("VAT") (Note(a))	Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current year)	3%-13%
City maintenance and construction tax	The payment amount of VAT	5%-7%
Educational surcharge	The payment amount of VAT	3%

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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3 TAXATION (Continued)

(1) The main categories and rates of taxes applicable to the Group are set out below: (Continued)

- (a) Pursuant to the ‘2019 Circular on Deeply Reform of Adjustment of Tax Rate of Value Added Tax’ (The General Administration of Customs of the State Administration of Taxation [2019] 39) jointly issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, the applicable tax rate of revenue arising from VAT-taxable sales is 13% from 1 April 2019, while it was 16% before then. The applicable tax rate of the Group’s VAT taxable income is adjusted accordingly.
- (b) According to the announcement of the State Administration of taxation on clarifying the collection and management of VAT on second hand car distribution and other issues, if the goods are not produced after professional treatment by means of landfill, incineration, etc., and the trustee belongs to the “professional and technical services” in the “modern services” provided in the “sales services, intangible assets, real estate notes” (Cai Shui [2016] 36), and the treatment fee charged by the trustee is subject to the VAT rate of 6%.

(2) Preferential tax policies for enterprise income tax

The information of preferential tax policies granted to the subsidiaries is as below:

Name of subsidiaries	Enterprise income tax rate for 2020	Reason for the preferential tax policy
The Company	15%	According to The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control issued on April 13, 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Fuyang Capital Water Co., Ltd.	15%	According to The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control issued on April 13, 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Gui Zhou Capital Water Co., Ltd.	15%	According to Notice of Guizhou Provincial SAT on Implementation of Preferential Tax Policy Relating to Development of Western Regions, (Qian Guo shui Han [2011] No.19) from 2011 to 2020.

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3 TAXATION (Continued)

(2) Preferential tax policies for enterprise income tax (Continued)

The information of preferential tax policies granted to the subsidiaries is as below:

Name of subsidiaries	Enterprise income tax rate for 2020	Reason for the preferential tax policy
Xi'an Capital Water Co., Ltd.	15%	According to Notice of Shaanxi Provincial SAT on Issuing Measures for Review and Management of Preferential Tax Policy of Enterprises Relating to Development of Western Regions, (Notice [2010] No. 3) from 2011 to 2020.
Hangzhou Tianchuang Capital Water Co., Ltd.	15%	According to The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control issued on April 13, 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Tianjin Caring Technology Development Co., Ltd	15%	In 2020, Caring Company has obtained the High-tech Enterprise Certificate (Certificate No. GR201812000566) issued by Tianjin Science and Technology Bureau, Tianjin Finance Bureau and Tianjin Taxation Bureau of the State Administration of Taxation. The certificate is valid for 3 years. According to relevant provisions of Article 28 of the Enterprise Income Tax Law of the People's Republic of China, the enterprise income tax rate applicable in 2020 is 15% (2019:15%).
Tianjin Water Recycling Co., Ltd.	The taxable income is 90% of revenue	According to Cai Shui [2008] No. 47, since 1 January 2008, for revenues generated from products which were in line with national or industry standards, the taxable income amount is 90% of the total revenue.
Karamay Tianchuang Capital Water Co., Ltd.	12.5%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2017 for the first 3 years and reduction half for the next 3 years.
Linxia Capital Water Co., Ltd.	0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2018 for the first 3 years and reduction half for the next 3 years.
Bayannur Capital Water Co., Ltd.	Sewage water: 0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2018 for the first 3 years and reduction half for the next 3 years.
	Recycled water: The taxable income is 90% of revenue	According to Cai Shui [2008] No. 47, since 1 January 2008, for revenues generated from products which were in line with national or industry standards, the taxable income amount is 90% of the total revenue.

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Notes to the Financial Statements

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3 TAXATION (Continued)

(2) Preferential tax policies for enterprise income tax (Continued)

The information of preferential tax policies granted to the subsidiaries is as below:

Name of subsidiaries	Enterprise income tax rate for 2020	Reason for the preferential tax policy
Yingshang Capital Water Co., Ltd.	0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2018 for the first 3 years and reduction half for the next 3 years.
Dalian Oriental Chunliuhe Water Quality Purification Co., Ltd.	0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2018 for the first 3 years and reduction half for the next 3 years.
Shandong Capital Environmental Protection Technology Consultant Co., Ltd.	0%	According to Cai Shui [2009] No. 166, income from engagement in qualified industrial solid waste treatment projects and hazardous waste treatment projects is subject to exemption from enterprise income tax commence from 2019 for the first 3 years and reduction half for the next 3 years.
Hanshou Tianchuang Capital Water Co., Ltd.	0%	According to Cai Shui [2019] No. 67, income from rural drinking water safety projects is subject to exemption from enterprise income tax commence from 2019 for the first 3 years and reduction half for the next 3 years.
Jiuquan Capital Water Co., Ltd.	0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2019 for the first 3 years and reduction half for the next 3 years.
Huize Capital Water Co., Ltd.	15%	According to <i>The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control</i> issued on April 13, 2019 (Announcement No. 60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Huoqiu Capital Water Co., Ltd.	15%	According to <i>The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control</i> issued on April 13, 2019 (Announcement No. 60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Wuhan Tianchuang Capital Water Co., Ltd.	15%	According to <i>The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control</i> issued on April 13, 2019 (Announcement No. 60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.

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3 TAXATION (Continued)

(3) Preferential tax policies for value-added tax

On 12 June 2015, the Ministry of Finance and the State Administration of Taxation issued the preferential value-added tax catalogue of products and services which comprehensively utilize resources Caishui [2015] No.78 (hereinafter referred to as the No. 78). According to the No.78, the sewage water processing and recycled water business are required to pay value-added tax since July 1, 2015. 70% of value-added tax paid by the sewage water processing business and 50% value-added tax paid by recycled water business will be refunded. On April 15, 2019, the Ministry of Finance and the State Administration of Taxation issued the “Announcement on Continued Implementation of Tax Preferential Policies for Rural Drinking Water Safety Projects” Caishui [2019] No. 67, stipulating that from January 1, 2019 to December 31, 2020, in the tap water supply business of the Group, the tap water sales income obtained by providing rural residents with domestic water is exempt from value-added tax.

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2020	31 December 2019
Cash on hand	14	37
Cash at bank	1,652,643	2,066,264
Other cash balances	10,989	13,312
	<u>1,663,646</u>	<u>2,079,613</u>
Including: Bank deposits overseas	<u>7,987</u>	<u>8,420</u>

(a) Cash listed in the cash flow statement comprises:

	31 December 2020	31 December 2019
Cash at bank and on hand	1,663,646	2,079,613
Less: Restricted bank deposits (Note (i))	<u>(10,989)</u>	<u>(13,312)</u>
Cash listed in cash flow statement (Note 4(38))	<u>1,652,657</u>	<u>2,066,301</u>

- (i) The restricted bank deposits represent the deposit for the purpose of applying for unconditional, irrevocable bank letters of guarantee.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Notes receivable

	31 December 2020	31 December 2019
Bank acceptance notes	2,656	16,131
Less: Provision for bad debts	—	—
	2,656	16,131

(a) As at 31 December 2020, the Group has no pledged notes receivable.

(b) As at 31 December 2020, the Group had no endorsements or discounted notes receivable that were not yet due.

(c) Provision for bad debts:

As at 31 December 2020, the notes receivable of the group are generated from daily business activities such as selling goods and providing services, regardless of whether there is a significant financing component. Group measures bad debt provision in accordance with the lifetime expected credit loss for the entire duration, and no provision is deemed necessary. The Group considers that there is no significant credit risk in banker's acceptance and no major loss will be caused by bank default.

(3) Trade receivables

	31 December 2020	31 December 2019
Trade receivables	2,127,612	2,573,720
Less: Provision for bad debts	(168,529)	(80,956)
	1,959,083	2,492,764

(a) The ageing analysis of trade receivable is as follows:

	31 December 2020	31 December 2019
Within 1 year	1,853,362	1,854,529
1 to 2 years	139,324	641,788
2 to 3 years	69,336	52,987
3 to 4 years	45,704	15,037
4 to 5 years	10,538	7,947
Over 5 years	9,348	1,432
	2,127,612	2,573,720

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Trade receivables (Continued)

(b) As at 31 December 2020, the trade receivables from the top five debtors in respect of outstanding balance are analyzed as below:

	Amount	Provision for bad debts	% of total balance
Trade receivables from the top five debtors	<u>1,472,417</u>	<u>(69,727)</u>	<u>69%</u>

(c) Provision for bad debts:

For the Group's trade receivables, regardless of whether there is a significant financing component, the Group measures the loss according to the expected credit loss for the entire life.

(i) As at 31 December 2020, provision for bad debts by individual is analyzed as below:

	Carrying amount	ECL rate	Provision	Reasons
Tianjin Water Authority Bureau	1,012,083	0.05%	(554)	1)
Qujing Sewage Company	187,137	22.25%	(41,630)	2)
Hangzhou City Water Facilities and River Protection Management Center	107,811	0.05%	(59)	1)
Guiyang Water Authority Bureau	60,391	0.05%	(33)	1)
Xi'an Infrastructure Investment Group	36,547	0.05%	(20)	1)
Tianjin City Appearance Sanitation Construction Development Co. Ltd	31,100	41.52%	(12,913)	3)
Jinghai Development Area Management Committee	26,650	52.88%	(14,093)	4)
Tianjin Ziya Environmental Protection Industrial Park Co. Ltd	16,797	100.00%	(16,797)	5)
Tianjin Shuangkou Municipal Solid Waste Landfill	13,776	100.00%	(13,776)	3)
Urad Front Banner Finance Bureau	10,928	100.00%	(10,928)	6)
Urad Rear Banner Finance Bureau	10,392	100.00%	(10,392)	6)
Zhejiang Xinsanyin Dyeing Co. Ltd	5,731	65.03%	(3,727)	7)
Tianjin Tianbao Municipal Administration Co. Ltd	3,612	100.00%	(3,612)	5)
Tianjin Goldin International Club Co. Ltd.	1,548	100.00%	(1,548)	8)
Tianjin City Investment Urban Resources Management Co., Ltd.	1,200	100.00%	(1,200)	9)
Tianjin Ziya Circular Economy Industry Investment Development Co., Ltd.	<u>1,020</u>	100.00%	<u>(1,020)</u>	10)
Total	<u>1,526,723</u>		<u>(132,302)</u>	

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Trade receivables (Continued)

(c) Provision for bad debts: (Continued)

(i) As at 31 December 2020, provision for bad debts by individual is analyzed as below: (Continued)

- 1) As these clients are provincial and municipal governments or their representatives, whose ability to meet their contractual cash flow obligations may not be weakened even if there are adverse changes in the economic and business situation over a long period, the receivables of the Group from Tianjin Water Authority Bureau, Hangzhou City Water Facilities and River Protection Management Center, from Guiyang Water Authority Bureau, and Xi'an Infrastructure Investment Group, have a lower credit risk. Based on the historical experience of operation, the Group maintains continuous receipts and there is no actual bad debt loss. Therefore, the Group estimates that the lifetime ECL rate of the receivables is 0.05%.
- 2) Receivables of Qujing Capital Water Co., Ltd. from Qujing Sewage Company comprise regular sewage treatment fee, tap water fee. As the receivables of regular sewage treatment fee and tap water fee have a longer collection period than ordinary government clients and they have higher credit risk, the Group estimates that the lifetime ECL rate is 22.25%.
- 3) Receivables of the Company from Tianjin Shuangkou Municipal Solid Waste Landfill and Tianjin City Appearance Sanitation Construction Development Co. Ltd comprise technical services fees. The repayment period of Tianjin City Appearance Sanitation Construction Development Co. Ltd is longer than that of general government customers. There were no transactions between the Company and Tianjin Shuangkou Municipal Solid Waste Landfill during the last year. The receivables from them are under high credit risk. Taking into account factors such as the debtor's actual performance ability, historical repayment experience, and aging, the Group presumes that they have defaulted and estimates that the lifetime ECL rate are respectively 41.52% and 100.00%.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Trade receivables (Continued)

(c) Provision for bad debts: (Continued)

(i) As at 31 December 2020, provision for bad debts by individual is analyzed as below: (Continued)

- 4) Receivables of Tianjin Jinghai Capital Water Co., Ltd from Jinghai Development Area Management Committee comprise conventional sewage treatment fees, whose repayment period is longer than that of general government customers, and are under high credit risk. Taking into account factors such as the debtor's actual performance ability, historical repayment experience, and aging, the Group presumes that it has defaulted and estimates that the lifetime ECL rate is 52.88%.
- 5) Receivables of the Company from Tianjin Tianbao Municipal Administration Co. Ltd and Tianjin Ziya Environmental Protection Industrial Park Co. Ltd comprise contract operation fees. They had no transactions with the Company, and are under high credit risk. Taking into account factors such as the debtor's actual performance ability, historical repayment experience, and aging, the Group presumes that they have defaulted and estimates that the lifetime ECL rate of them are 100%.
- 6) Receivables from Urad Front Banner Finance Bureau and Urad Rear Banner Finance Bureau comprise conventional sewage treatment fees, whose repayment period is longer than that of general government customers, and are under high credit risk. Taking into account factors such as the debtor's actual performance ability, historical repayment experience, and aging, the Group presumes that it has defaulted and estimates that the lifetime ECL rate of them are 100.00%
- 7) Receivables of Tianjin Caring Technology Development Co., Ltd. from Zhejiang Xinsanyin Dyeing Co.Ltd comprise construction of related facility and contract operation fees, whose repayment period is longer than that of general customers, and are under high credit risk. Taking into account factors such as the debtor's actual performance ability, historical repayment experience, and aging, the Group presumes that it has defaulted and estimates that the lifetime ECL rate is 65.03%.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Trade receivables (Continued)

(c) Provision for bad debts: (Continued)

(i) As at 31 December 2020, provision for bad debts by individual is analyzed as below: (Continued)

- 8) Receivables of the Company from Tianjin Goldin International Club Co. Ltd. comprise contract operation fees. Tianjin Goldin International Club Co. Ltd. had no transactions with Tianjin Water Recycling Co., Ltd., whose receivables are under high credit risk. Taking into account factors such as the debtor's actual performance ability, historical repayment experience, and aging, the Group presumes that they have defaulted and estimates that the lifetime ECL rate of them is 100%.
- 9) Receivables of the Company from Tianjin City Investment Urban Resources Management Co., Ltd. comprise rental fees. Tianjin City Investment Urban Resources Management Co., Ltd. had no transactions with the Company, whose receivables are under high credit risk. Taking into account factors such as the debtor's actual performance ability, historical repayment experience, and aging, the Group presumes that they have defaulted and estimates that the lifetime ECL rate of them is 100%.
- 10) Receivables of the Company from Tianjin Ziya Circular Economy Industry Investment Development Co., Ltd., comprise sales income of Environment protection equipments. Tianjin Ziya Circular Economy Industry Investment Development Co., Ltd., had no transactions with the Company, whose receivables are under high credit risk. Taking into account factors such as the debtor's actual performance ability, historical repayment experience, and aging, the Group presumes that they have defaulted and estimates that the lifetime ECL rate of them is 100%.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Trade receivables (Continued)

(c) Provision for bad debts: (Continued)

(ii) Provision for bad debts by group is analyzed as below:

Group – Government clients except those in provincial capitals and municipalities

	31 December 2020			31 December 2019		
	Carrying amount Amount	Provision ECL rate	Amount	Carrying amount Amount	Provision ECL rate	Amount
Undue	145,974	0.05%	(80)	102,406	5.31%	(5,438)
1-180 days overdue	164,318	5.41%	(8,886)	107,386	5.31%	(5,702)
>180 days overdue	76,037	8.64%	(6,565)	57,014	7.46%	(4,255)
	<u>386,329</u>		<u>(15,531)</u>	<u>266,806</u>		<u>(15,395)</u>

Group – other clients

	31 December 2020			31 December 2019		
	Carrying amount Amount	Provision ECL rate	Amount	Carrying amount Amount	Provision ECL rate	Amount
Undue	67,571	6.85%	(4,631)	41,844	6.70%	(2,804)
1-90 days overdue	64,180	6.85%	(4,399)	27,352	6.70%	(1,833)
>90 days overdue	82,809	14.09%	(11,666)	58,983	15.08%	(8,897)
	<u>214,560</u>		<u>(20,696)</u>	<u>128,179</u>		<u>(13,534)</u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Advances to suppliers

(a) *The ageing of advances to suppliers is analyzed as follows:*

	31 December 2020		31 December 2019	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	25,199	96%	37,407	97%
1 to 2 years	262	1%	428	1%
Over 2 years	759	3%	748	2%
	<u>26,220</u>	<u>100%</u>	<u>38,583</u>	<u>100%</u>

As at 31 December 2020, advances to suppliers of RMB1.0 million (31 December 2018: RMB1.2 million) with aging over one year were mainly for prepaid electricity deposit.

(b) *As at 31 December 2020, the top five advances to suppliers in respect of outstanding balance of the Group are analyzed as follows:*

	Amount	% of total balance
Total amounts of advances to suppliers to the top five debtors in respect of outstanding balance	<u>6,340</u>	<u>24%</u>

(5) Other receivables

	31 December 2020	31 December 2019
Project deposits	6,846	26,847
VAT refund	5,007	31,670
Others	<u>12,280</u>	<u>6,660</u>
	24,133	65,177
Less: Provision for bad debts	<u>(16)</u>	<u>(21)</u>
	<u>24,117</u>	<u>65,156</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

(a) The ageing analysis of other receivables is as follows:

	31 December 2020	31 December 2019
Within 1 year	15,344	48,815
1 to 2 years	4,353	4,626
2 to 3 years	1,599	9,046
Over 3 years	2,837	2,690
Total	<u>24,133</u>	<u>65,177</u>

(b) As at 31 December 2020 and 31 December 2019, other receivables provisioned bad debts by group were all belong to stage 1. The analysis is as below:

	31 December 2020			31 December 2019		
	Carrying amount Amount	Provision Amount	%	Carrying amount Amount	Provision Amount	%
Project deposit Group:						
Within 1 year	3,631	(2)	0.05%	12,688	(7)	0.05%
1-2 years	879	(0)	0.05%	2,985	(2)	0.05%
2 to 3 years	61	(0)	0.05%	8,950	(5)	0.05%
Over 3 years	2,275	(1)	0.05%	2,224	(1)	0.05%
subtotal	<u>6,846</u>	<u>(3)</u>		<u>26,847</u>	<u>(15)</u>	
Other Group :						
Within 1 year	6,706	(7)	0.10%	4,457	(4)	0.10%
1-2 years	3,474	(3)	0.10%	1,641	(2)	0.10%
2 to 3 years	1,538	(2)	0.10%	96	-	0.10%
Over 3 years	562	(1)	0.10%	466	-	0.10%
subtotal	<u>12,280</u>	<u>(13)</u>		<u>6,660</u>	<u>(6)</u>	
total	<u>19,126</u>	<u>(16)</u>		<u>33,507</u>	<u>(21)</u>	

(c) In 2020, the changes of other receivables' provision of the Group is not significant.

(d) As of 31 December, 2020, the Group had no other receivables that were past due but not impaired (31 December 2019: Nil).

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

(e) As at 31 December 2020, other receivables from the top five debtors in respect of outstanding balance are analyzed as below:

	Nature	Amount	Aging	% of total balance	Provision for bad debts
Tianjin Installation Engineering Co., Ltd	Deposits of migrant workers' wages	1,955	1 to 2 years	8.10%	(1)
Tianjin Installation Engineering Co., Ltd	Deposits of migrant workers' wages	1,173	Within 1 year	4.86%	(1)
Tianjin State Taxation Bureau	VAT receivable	1,718	Within 1 year	7.12%	–
State Grid Tianjin electric power company	Project deposits	1,000	More than 3 years	4.14%	(1)
Fuyang City Administration and Law Enforcement Bureau	Advance payment of sludge disposal Fees	885	Within 1 year	3.67%	–
Huoqiu County Public Resources Trading Center	Project deposits	800	1 to 2 years	3.31%	–
Ningxiang Economic and Technological Development Zone Management Committee	Deposits of migrant workers' wages	800	2 to 3 years	3.31%	–
		8,331		34.51%	(3)

(f) As at 31 December 2020, the Group's analysis of government grants confirmed by the amount receivables is as follows :

	Government grants program	Amount	Aging
The Company	VAT refund	1,718	Within 1 year
Wuhan Tianchuang Capital Water Co.,Ltd.	VAT refund	1,077	Within 1 year
Deqing Capital Environmental Protection Water Co., Ltd.	VAT refund	793	Within 1 year
Tianjin Water Recycling Co., Ltd.	VAT refund	401	Within 1 year
Baoying Capital Water Co., Ltd.	VAT refund	369	Within 1 year
Xi'an Capital Water Co., Ltd.	VAT refund	271	Within 1 year
Guizhou Capital Water Co., Ltd.	VAT refund	197	Within 1 year
Fuyang Capital Water Co., Ltd.	VAT refund	129	Within 1 year
Wendeng Capital Water Co., Ltd.	VAT refund	33	Within 1 year
Anguo Capital Water Co., Ltd.	VAT refund	19	Within 1 year
		5,007	

Based on the previous year's collection situation, the VAT refund is expected to be fully collected in 2021.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Inventories

(a) The Group's inventory is classified as follows:

	31 December 2020			31 December 2019		
	Ending balance	Provision for decline in the value of inventories	Carrying amount	Ending balance	Provision for decline in the value of inventories	Carrying amount
Raw materials	11,868	–	11,868	10,888	–	10,888
Finished goods	5,118	–	5,118	3,529	–	3,529
Spare parts and low cost consumables	474	–	474	388	–	388
	<u>17,460</u>	<u>–</u>	<u>17,460</u>	<u>14,805</u>	<u>–</u>	<u>14,805</u>

(7) Other current and non-current assets

	31 December 2020	31 December 2019
Other current assets:		
Input VAT to be deducted	76,774	52,605
Input VAT to be verified	2,970	13,642
Income tax prepaid	2,484	–
Anguo Sewage Assets (a)	–	6,257
	<u>82,228</u>	<u>72,504</u>

(a) As at 31 December, 2020, the Group conducted an impairment assessment of the relevant assets of Anguo Sewage Treatment Plant and made provision for asset impairment of RMB6 million.

	31 December 2020	31 December 2019
Other non-current assets:		
Input VAT to be deducted	193,783	49,122
Prepayments of construction	108,316	50,927
Prepayment for land use rights	20,454	–
Others	8,418	9,132
	<u>330,971</u>	<u>109,181</u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Long-term receivables and non-current assets due within one year

	31 December 2020	31 December 2019
Receivables from Tianjin Water Authority Bureau (a)	1,431,761	–
Toll road concession (b)	236,592	253,812
Less: Bad debt provision	<u>(902)</u>	<u>(138)</u>
	1,667,451	253,674
Less: Listed in non-current assets due within one year	<u>(20,049)</u>	<u>(17,224)</u>
	<u><u>1,647,402</u></u>	<u><u>236,450</u></u>

- (a) In 2020, with the influence of Coronavirus Disease 2019 (the “COVID-19”), the actual collection of receivables from Tianjin Water Authority Bureau was significantly below expectation. Based on the historical collection experience and the expectation of future payment scheme, the Group has reclassified the present value of receivables of which collection is expected to be exceeding 12 months as long-term receivables. The expected credit loss rate for the aforesaid long-term receivables is 0.05%, which is consistent with expected credit loss rate as applied for the remaining trade receivables with Tianjin Water Authority Bureau. The balance of loss allowances is RMB1 million.
- (b) Receivables from toll road concession represent the amortized cost, using effective interest method, calculated with reference to a guaranteed minimum future traffic flow over the concession period.

Tianjin Municipal Transportation Commission is a public institution under the Tianjin municipal government, which has low credit risk. According to historical experience, the Company can collect the receivables within the agreed period. Therefore, the Company estimates that the ECL rate of this receivable item is 0.05%.

(9) Long-term equity investments

	31 December 2020	31 December 2019
Investment in an associate (a)	217,358	217,358
Less: Impairment of Long-term equity investments (b)	<u>(22,358)</u>	<u>(22,358)</u>
	<u><u>195,000</u></u>	<u><u>195,000</u></u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Long-term equity investments (Continued)

(a) Investment in associate

	Type	Place of registration	Registered capital	Shareholding/ Voting rights (%)
Tianjin International Machinery Co., Ltd. (i)	Limited company	Tianjin	120,000	27.50%
Tianjin Bihai Sponge City Co., Ltd. (ii)	Limited company	Tianjin	650,000	30.00%

- (i) Tianjin International Machinery Co., Ltd. (“International Machinery”) is a Sino-foreign joint venture registered in the Tianjin Economics Development Area. The businesses of International Machinery include research and development, production and sale of valve and actuating device, heater exchanger and the whole set, environment protection equipment, and general mechanical equipment.

The movements of the Group’s investment in International Machinery are as follows:

	Initial investment cost	31 December 2019	New investment	Share of net loss under equity method	Cash dividends or profit declared	Provision for impairment accrued	31 December 2020	Provision for impairment at the end of the year
International Machinery	<u>33,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,358)</u>

The Group fully provided provision of impairment of RMB22 million for long-term equity investment in International Machinery in 2016.

- (ii) Tianjin Bihai Sponge City Co., Ltd. (“Bihai Sponge City”) is a limited liability company registered in Tianjin. The businesses of Bihai Sponge City include construction and operation of water treatment projects; procurement and maintenance of water treatment equipment; ecological maintenance; tourism development; ecological management; construction, operation and management of sponge city project; construction and operation of municipal engineering. Bihai Sponge City was registered and established on 30 July 2018 and is still in the initial construction period.

The movements of the Group’s investment in Bihai Sponge City are as follows:

	Initial investment cost	31 December 2019	New investment	Share of net loss under equity method	Cash dividends or profit declared	Provision for impairment accrued	31 December 2020	Provision for impairment at the end of the year
Bihai Sponge City	<u>195,000</u>	<u>195,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>195,000</u>	<u>-</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Long-term equity investments (Continued)

(b) Provision for impairment of long-term equity investments

	31 December 2019	Additions	Disposals	31 December 2020
International Machinery	22,358	–	–	22,358

(10) Other equity instruments investment

	31 December 2020	31 December 2019
Equity of unlisted company – Tianjin Beifang Rencaigang Company Ltd.	2,000	2,000
Tianjin Beifang Rencaigang Company Ltd. – Cost	2,000	2,000
– Accumulated fair value changes	–	–
	2,000	2,000

Other equity instruments investment is the unlisted equity investments of Tianjin Beifang Rencaigang Co., Ltd. held by the Group and the shareholding ratio is 6.10%. The Group does not participate in or influence the financial and operational decisions of Tianjin Beifang Rencaigang Co., Ltd. in any way. Therefore, the Group has no significant influence on the above-mentioned invested company and accounts for it as other equity instruments.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Fixed assets and construction in progress

(a) Fixed assets

	Buildings and structures (note (i)) Self-use	Machinery and equipment Self-use	Motor vehicles & others Self-use	Total
Cost –				
31 December 2019	531,461	443,180	77,607	1,052,248
Transfers from construction in progress	101,834	81,294	24,375	207,503
Other additions in the current year	1,861	3,728	9,494	15,083
Disposals in the current year	–	(66)	(1,017)	(1,083)
31 December 2020	635,156	528,136	110,459	1,273,751
Accumulated depreciation –				
31 December 2019	(149,539)	(209,580)	(51,336)	(410,455)
Other additions in the current year (note (i))	(12,092)	(34,257)	(7,933)	(54,282)
Disposals in the current year	–	1	480	481
31 December 2020	(161,631)	(243,836)	(58,789)	(464,256)
Carrying Amount –				
31 December 2020	473,525	284,300	51,670	809,495
31 December 2019	381,922	233,600	26,271	641,793

- (i) The Group's depreciation expenses of RMB44 million (2019: RMB35 million) have been included in cost of sales and RMB10 million (2019: RMB9 million) in general and administrative expenses.
- (ii) As at 31 December 2020, the certificate of title to outsourced assets included in fixed assets, land use rights with cost of RMB172 million and carrying amount of RMB109 million (31 December 2019: cost of RMB172 million and carrying amount of RMB111 million) and non-monetary exchange assets with cost of RMB12 million and carrying amount of RMB9 million (31 December 2019: cost of RMB12 million and carrying amount of RMB9 million) has yet to be or is in the process of being transferred to the Group. As these assets are supported by legal sale and purchase agreements, the management of the Company believes that the titles will be received in due course without any legal barrier or additional significant cost.
- (iii) As at 31 December 2020, fixed assets with cost of RMB190 million (31 December 2019: RMB206 million) and a carrying amount of approximately RMB185 million (31 December 2019: RMB204 million) were used as collateral for long-term borrowings of RMB139 million (Note 4(16) (a)).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Fixed assets and construction in progress (Continued)

(b) Construction in progress

Name	Budgeted amount	31 December 2019	Increase in the current year	Transfer to fixed assets	Transfer to intangible assets	31 December 2020	Proportion of expenditures incurred to budgeted amount	Progress	The accumulated balance of capitalization of requested fee	Including borrowing costs capitalized in current year	Capitalisation rate	Source of funds
Xianyang Road Sewage Plant 150 thousand tons emergency project	121,022	-	12,979	-	(12,979)	-	100%	100%	47	-	-	Special loan and Self-raised fund
Fuyang- yindong sewage water processing Plant project	175,421	-	98,963	-	(98,963)	-	90%	100%	2,558	2,079	4.80%	Special loan and Self-raised fund
Hefei- Hefei Taochong sewage water processing plant PPP project	585,895	-	26,591	-	(26,591)	-	38%	38%	11,583	3,417	4.41%	Special loan and Self-raised fund
Guizhou-Shibing PPP Project	99,500	-	34,114	-	(34,114)	-	85%	85%	1,062	331	4.34%	Special loan and Self-raised fund
Guojin-Gaocheng district water environment upgrading PPP project	724,990	-	41,854	-	(41,854)	-	6%	6%	998	998	4.40%	Special loan and Self-raised fund
Chibi sewage water processing plant upgrading project	214,680	-	62,306	-	(62,306)	-	85%	85%	6,459	4,219	4.66%	Special loan and Self-raised fund
Baoying- xianhe sewage water processing plant project	99,806	-	27,133	-	(27,133)	-	69%	69%	4,011	2,871	5.10%	Special loan and Self-raised fund
Hanshou- Hanshou Yuanquan water plant concession project	150,000	-	29,464	-	(29,464)	-	21%	21%	2,626	515	4.34%	Special loan and Self-raised fund
Shandong- Yishui&Tancheng City Solid Waste Treatment project	572,986	157,558	46,331	(199,925)	-	3,964	71%	71%	19,611	10,654	4.95%	Special loan and Self-raised fund
Huoqiu PPP project	206,415	-	47,784	-	(47,784)	-	23%	23%	438	438	4.10%	Special loan and Self-raised fund
Huize-Huize urban sewage water processing facilities construction project	141,231	-	47,383	-	(47,383)	-	34%	34%	755	755	4.34%	Special loan and Self-raised fund
Xi'an-Xi'an Beishiqiao Dengjiacun upgrading and deodorant projects	473,910	-	34,438	-	(34,438)	-	9%	9%	1,615	1,615	4.66%	Special loan and Self-raised fund
Changsha-Ningxiang sewage water processing and recycling project	16,473	-	13,045	-	(13,045)	-	79%	79%	90	90	4.90%	Special loan and Self-raised fund
Fuyang-Jinzhai business park BOT Project	60,999	-	14,502	-	(14,502)	-	100%	100%	8,429	8,141	4.90%	Special loan and Self-raised fund
Tianjin- Jiayuan Tianchuang Heiniucheng Roads energy station project	209,975	-	21,544	-	(21,544)	-	88%	100%	855	688	4.45%	Special loan and Self-raised fund
JiuQuan Suzhou Sewage Treatment Plant PPP Project	512,505	-	251,379	-	(251,379)	-	100%	100%	781	-	-	Special loan and Self-raised fund
Xinjiang- Karamay PPP Project of sewage operation	269,980	-	10,202	-	(10,202)	-	87%	100%	4,712	742	4.90%	Special loan and Self-raised fund
Others		1,656	38,102	(7,578)	(26,285)	5,895			36,568	2,153	4.34%	Special loan and Self-raised fund
		<u>159,214</u>	<u>858,114</u>	<u>(207,503)</u>	<u>(799,966)</u>	<u>9,859</u>			<u>103,198</u>	<u>39,706</u>		

As at 31 December 2020, bank borrowing of RMB139 million is secured by property and equipment under construction with original cost of RMB3 million (31 December 2019: RMB13 million) (note 4(16) (a)).

As at 31 December 2020, the Group has no provision for construction in progress (31 December 2019: Nil).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Intangible assets

	31 December 2020	31 December 2019
Concession rights (a)	11,918,617	11,697,244
Land use rights (b)	77,607	58,080
Technical know-how and computer software (c)	<u>3,594</u>	<u>4,118</u>
	<u><u>11,999,818</u></u>	<u><u>11,759,442</u></u>

(a) The movements of concession rights are as follows:

Cost	
31 December 2019	14,288,762
Transfers from construction in progress	799,966
Other decrease (v)	<u>(33,833)</u>
31 December 2020	<u>15,054,895</u>
Accumulated amortisation	
31 December 2019	(2,539,435)
Charge for the year	<u>(516,209)</u>
31 December 2020	<u>(3,055,644)</u>
Provision for impairment	
31 December 2019	(52,083)
Charge for the year (vi)	<u>(28,551)</u>
31 December 2020	<u>(80,634)</u>
Net Book Value	
31 December 2020	<u><u>11,918,617</u></u>
31 December 2019	<u><u>11,697,244</u></u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2020
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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Intangible assets (Continued)

(a) *The movements of concession rights are as follows:* (Continued)

- (i) As at 31 December 2020, concession right with cost of RMB770 million (2019: RMB449 million) is still under the construction period. The Group adopted the discounted cash flow model to main intangible assets under the construction which are not yet ready for their intended use. The estimated price is based on price in the concession right agreements. Other main assumptions are as follows:

Name of project	Carrying amount on 31 December 2020 (RMB' 000)	Forecast period growth rate	Stable period growth rate	Discount rate
Jieshou sewage operation PPP project (second batch)	198,529	5.5%	2.5%	11%
Chibi sewage water processing plant upgrading project	183,185	15.5%	2.5%	11%
Guizhou – Shibing PPP project	81,745	12.6%	2.5%	11%
Baoying – xianhe sewage water processing plant project	67,747	5.9%	2.5%	11%
Huoqiu PPP project	47,784	4.6%	2.5%	11%
Huize urban sewage water processing facilities construction project	47,383	16.4%	2.5%	11%
Guojin – Gaocheng district water environment upgrading PPP project	42,345	16.7%	2.5%	11%
Xi'an Beishiqiao Dengjiacun upgrading and deodorant projects	34,438	13.3%	2.5%	11%
Hanshou Yuanquan water plant concession project	33,711	14.1%	2.5%	11%
	<u>736,867</u>			

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Intangible assets (Continued)

(a) *The movements of concession rights are as follows:* (Continued)

- (ii) According to the policies of the Tianjin Municipal Government (the “Tianjin Government”), the Company is mandated to improve the quality standards of the effluent from its sewage treatment plants in Tianjin. As a result, the operations of the Company’s Xianyang Road Sewage Plant and Dongjiao Water Plant (include matched recycling water plant) have to be relocated and conducted in another new plants to be constructed by the Tianjin Government (namely the “New Xianyang Road Sewage Plant and the New Dongjiao Water Plant”). All of the construction costs for the new plants (together with the associated land costs) and relocation costs will be borne by the Tianjin Government.

The New Dongjiao Sewage Plant as freely provided by the Tianjin Government becomes ready for use on 1 September 2020 and all of the operations of the Dongjiao Sewage Plant has been relocated to the New Dongjiao Sewage Plant. All of the key terms of the service concession right agreement governing the operations of the Dongjiao Sewage Plant (the “Concession Right Agreement”) remains unchanged and will be inherited by the New Dongjiao Sewage Plant. The Tianjin Government has also approved that the Company can increase the tariff rates for its sewage processing services (to certain extent) so as to compensate the higher operating costs for maintaining the improved quality standards of the effluent from the New Dongjiao Sewage Plant.

As of the assets transfer date, the concession right as recognised by the Group in connection with operations of the Dongjiao Sewage Plant were included in intangible assets with the carrying amounts of RMB556 million (with cost amounts and accumulated depreciation amounts of RMB1,241 million and RMB685 million respectively).

The entire relocation and non-monetary assets exchange arrangement is conducted based on the instructions of the Tianjin Government and the Group has not been exposed to or benefit from any significant changes in risks and rewards as a result of that arrangement. In view of this, the Directors of the Company are of the view that the relocation and non-monetary assets exchange arrangement will not have any impact on the carrying amounts of right-of-use assets and intangible assets as previously recognised by the Group and the related assets (including the concession right) will continue to be depreciated or amortised on a consistent straight-line basis over their respective remaining useful lives or concession right period (as applicable).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Intangible assets (Continued)

(a) *The movements of concession rights are as follows:* (Continued)

- (iii) As at 31 December 2020, certain concession rights with carrying amounts of RMB2,508 million (cost of RMB3,241 million) (2019: carrying amounts of RMB2,646 million (cost of RMB3,323 million)) have been pledged as securities for bank borrowing of RMB1,211 million (2019: RMB527 million) (Note 4(16)(a)).
- (iv) The amortisation period of concession rights ranges from 9 to 30 years.
- (v) In the first and second phases of Hangzhou's upgrading and renovation project, the provisional project cost as recognised in prior year was adjusted according to the final accounts of completion this year, resulting in a decrease of RMB34 million in the original value of intangible assets this year.
- (vi) According to estimated future operating conditions, the Group has conducted an impairment assessment on the concession right of Tianjin Jinghai Capital Water Co., Ltd. and recognised assets impairment of approximately RMB29 million.

(b) *The movements of land use rights are as follows:*

Cost	
31 December 2019	65,445
Increase in the current year	21,549
31 December 2020	86,994
Accumulated amortisation	
31 December 2019	(7,365)
Charge for the year	(2,022)
31 December 2020	(9,387)
Net Book Value	
31 December 2020	77,607
31 December 2019	58,080

- (i) As at 31 December 2020, bank borrowing of RMB311 million (31 December 2019: RMB194 million) is secured by land use right with carrying amount of RMB58 million and original cost of RMB62 million (31 December 2019: carrying amount of RMB26 million and original cost of RMB28 million) (Note 4(16)(a)).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Intangible assets (Continued)

(b) *The movements of land use rights are as follows:* (Continued)

(ii) As at 31 December 2020, the land use right includes assets exchanged for non-monetary assets with an original cost of RMB5 million and a carrying amount of approximately RMB4 million (31 December 2019: original cost of RMB5 million and a carrying amount of approximately RMB4 million). Whose certificate of title to outsourced assets included has yet to be or is in the process of being transferred to the Group. As these assets are supported by legal sale and purchase agreements, the management of the Company believes that the titles will be received in due course without any legal barrier or additional significant cost.

(c) *The movements of technical know-how and software are as follows:*

Cost	
31 December 2019	12,183
Increase in the current year	<u>184</u>
31 December 2020	<u>12,367</u>
Accumulated amortisation	
31 December 2019	(8,065)
Charge for the year	<u>(708)</u>
31 December 2020	<u>(8,773)</u>
Net Book Value	
31 December 2020	<u><u>3,594</u></u>
31 December 2019	<u><u>4,118</u></u>

(d) In 2020, the amounts of amortization charged to cost of sales and general and administrative expenses were RMB516 million (2019: RMB462 million) and RMB3 million (2019: RMB3 million), respectively.

(e) The Research and development expenses of the Group in 2020 are all related to the Research and development of the production process of environmental protection equipment, which are all included in profit or loss when incurred.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Provision for asset impairment and loss

	31 December 2019	Reclassification	Increase in the current year	Decrease in the current year Reversal	Write-off	31 December 2020
Provision for trade receivables (Notes(i))	80,956	–	98,162	(10,589)	–	168,529
Including: Individual provision for bad debts	52,027	1,792	78,920	(437)	–	132,302
Combined provision for bad debts	28,929	(1,792)	19,242	(10,152)	–	36,227
Provision for other receivables	21	–	7	(12)	–	16
Provision for long-term receivables (including other non-current assets due with one year)	138	–	764	–	–	902
Subtotal	<u>81,115</u>	<u>–</u>	<u>98,933</u>	<u>(10,601)</u>	<u>–</u>	<u>169,447</u>
Provision for intangible assets	52,083	–	28,551	–	–	80,634
Provision for other current assets	26,808	–	6,257	–	–	33,065
Provision for Long-term equity investments	22,358	–	–	–	–	22,358
Subtotal	<u>101,249</u>	<u>–</u>	<u>34,808</u>	<u>–</u>	<u>–</u>	<u>136,057</u>

(i) In 2020, the Company's subsidiary Tianjin Jiayuan Xingchuang Energy Technology Co., Ltd has collected part of the trade receivables which had been recognised bad debt provision.

(14) Trade payables, other payables, taxes payable and contract liabilities

	31 December 2020	31 December 2019
Trade payables (a)	294,973	231,293
Other payables (b)	955,773	1,534,014
Taxes payable (c)	56,841	86,188
Contract liabilities (d)	527,410	558,472
	<u>1,834,997</u>	<u>2,409,967</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Trade payables, other payables, taxes payable and contract liabilities (Continued)

(a) As at 31 December 2020, trade payables are mainly for inventory purchase. Trade payables aged over one year are RMB89 million (31 December 2019: RMB67 million), mainly representing payables for source water of RMB43 million from the subsidiary Qujing Capital Water Co., Ltd, and the subsidiary Tianjin Zhongshui Co., Ltd.'s project payable of RMB30 million. Since such amount has not been received from Qujing City Water General Company and the pipeline connection project of Zhongshui Company has not been completed, so the payment has not been finalized.

(b) *Other payables comprise:*

	31 December 2020	31 December 2019
Construction costs payable and deposits	838,871	1,224,453
Payable for purchase of fixed assets and concession rights	18,930	171,392
Interests payable for debentures payable	2,097	42,974
Dividends payable	142	1,172
Others	95,733	94,023
	<u>955,773</u>	<u>1,534,014</u>

As at 31 December 2020, other payables of RMB642 million (31 December 2019: RMB665 million) are aged over one year, which mainly represent construction costs payable and guarantee deposits for Dalian Oriental Chunliuhe sewage processing project, Karamay Sewage processing PPP project and Honghu sewage plants construction upgrading projects and etc. The balance is yet to be settled as the projects have not been completed.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Trade payables, other payables, taxes payable and contract liabilities (Continued)

(c) Balances of taxes payable

	31 December 2020	31 December 2019
Unpaid VAT	24,234	37,256
Enterprise income tax payable	18,092	32,083
Others	14,515	16,849
	56,841	86,188
	56,841	86,188

(d) Contract Liabilities

	31 December 2020	31 December 2019
For pipeline connection service	509,271	508,138
For cooling and heating service	7,190	8,014
Received from project of Han Gu	4,876	4,876
For hazard waste treatment	3,145	6,197
For sale of equipment	2,028	11,263
For Sewage processing service fee	-	12,071
Others	900	7,913
	527,410	558,472
	527,410	558,472

In 2020, the amount of RMB236 million (2019: RMB173 million) which is included in the beginning balance of contract liabilities has realized to income. The Group expects that contract liabilities will be carried forward to recognize revenue through normal operating processes, and therefore will be recognized as current liabilities.

(15) Accrued payroll

	31 December 2020	31 December 2019
Short-term employee benefits payable (a)	85,362	65,891
Defined contribution plans payable (b)	258	209
	85,620	66,100
	85,620	66,100

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Accrued payroll (Continued)

(a) Short-term employee benefits payable

	31 December 2019	Increase in the current year	Decrease in the current year	31 December 2020
Wages and salaries, bonuses, allowances and subsidies	58,212	274,637	(256,893)	75,956
Staff welfare	101	16,532	(16,622)	11
Social security contributions	121	17,769	(17,778)	112
Including: Medical insurance	108	17,020	(17,016)	112
Work injury insurance	2	85	(87)	–
Maternity insurance	11	664	(675)	–
Housing funds	64	44,449	(44,401)	112
Labor union funds and employee education funds	7,393	7,633	(5,855)	9,171
	<u>65,891</u>	<u>361,020</u>	<u>(341,549)</u>	<u>85,362</u>

(b) Defined contribution plans payable

	31 December 2019	Increase in the current year	Decrease in the current year	31 December 2020
Basic pensions	192	7,679	(7,743)	128
Annuity	9	8,509	(8,392)	126
Unemployment	8	111	(115)	4
	<u>209</u>	<u>16,299</u>	<u>(16,250)</u>	<u>258</u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Long-term borrowings, debentures payable, long-term payables, short-term borrowings and other liabilities

	Note	31 December 2020	31 December 2019
Non-current:			
Long-term borrowings	(a)	5,033,225	3,818,136
Less: Current portion due within one year	(a)	<u>(805,331)</u>	<u>(811,380)</u>
		<u>4,227,894</u>	<u>3,006,756</u>
Debentures payable	(b)	1,798,419	1,797,389
Less: Current portion due within one year	(b)	<u>(699,571)</u>	<u>–</u>
		<u>1,098,848</u>	<u>1,797,389</u>
Long-term payables	(c)	282,840	290,891
Less: Current portion due within one year	(c)	<u>(35,106)</u>	<u>(28,239)</u>
		<u>247,734</u>	<u>262,652</u>
Other non-current liabilities	(e)	<u>34,000</u>	<u>36,000</u>
Current:			
Current portion of long-term borrowings	(a)	805,331	811,380
Current portion of debentures payable	(b)	699,571	–
Current portion of debentures payable interests	(b)	42,974	–
Current portion of long-term payables	(c)	35,106	28,239
Current portion of provision (Note 4(17))		<u>13,281</u>	<u>12,933</u>
Current portion of non-current liabilities		<u>1,596,263</u>	<u>852,552</u>
Short-term borrowings	(d)	<u>–</u>	<u>200,000</u>
Other current liabilities	(e)	<u>–</u>	<u>20,250</u>

(a) Long-term borrowings

Summary of current portion of long-term borrowings by terms:

	Note	31 December 2020	31 December 2019
Secured	(i)	26,641	22,221
Guaranteed	(ii)	431,700	247,459
Unsecured		251,590	504,000
Pledged	(iii)	<u>95,400</u>	<u>37,700</u>
		<u>805,331</u>	<u>811,380</u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Long-term borrowings, debentures payable, long-term payables, short-term borrowings and other liabilities (Continued)

(a) Long-term borrowings (Continued)

Summary of non-current portion of long-term borrowings by terms:

	Note	31 December 2020	31 December 2019
Secured	(iv)	284,395	172,210
Guaranteed	(v)	2,065,686	1,656,915
Unsecured		761,690	646,000
Pledged	(vi)	1,116,123	531,631
		<u>4,227,894</u>	<u>3,006,756</u>

- (i) As at 31 December 2020, the current portion of bank borrowings of RMB22 million (31 December 2019: RMB22 million) is mortgaged by land use right (Note 4(12) (b)), property and equipment under construction (Note 4(11) (b)) and fixed assets (Note 4(11) (a)) of Shandong Capital Environmental Protection Technology Development Co., Ltd..
- (ii) As at 31 December 2020, the current portion of bank borrowings of RMB40 million (31 December 2019: RMB39 million) is guaranteed by City Infrastructure Construction and Investment for Xi'an Capital Water Co., Ltd., the subsidiary of the Company (Note 8(5) (b)). The current portion of bank borrowings of RMB392 million (2019: RMB208 million) is guaranteed by the company for its subsidiaries.
- (iii) As at 31 December 2020, the current portion of bank borrowings of RMB75 million (31 December 2019: RMB38 million) is pledged by all earnings and equity of Jingu and Beicang upgrading project under the Group's concession right (Note 4(12) (a)). The current portion of bank borrowings of RMB20 million (31 December 2019: Nil) is pledged by the account receivables of "JiuQuan Suzhou the first and the second Sewage Treatment Plant PPP Project" (Note 4(12) (a)).
- (iv) As at 31 December 2020, the non-current portion of bank borrowings of RMB150 million (31 December 2019: RMB172 million) is mortgaged by land use right (Note 4(12) (b)). The non-current portion of bank borrowings of RMB134 million (31 December 2019: Nil) is mortgaged by land use right (Note 4(12) (b)), the property and equipment under construction (Note 4(11) (b)) and fixed assets (Note 4(11) (a)) of Shandong Capital Environmental Protection Technology Development Co., Ltd..

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Long-term borrowings, debentures payable, long-term payables, short-term borrowings and other liabilities (Continued)

(a) Long-term borrowings (Continued)

- (v) As at 31 December 2020, the non-current portion of bank borrowings of RMB31 million (31 December 2019: RMB71 million) is guaranteed by City Infrastructure Construction and Investment for Xi'an Capital Water Co., Ltd, the subsidiary of the Company (Note 8(5) (b)), the non-current portion of bank borrowings of RMB2,035 million (31 December 2019: RMB1,586 million) is guaranteed by the company for its subsidiaries.
- (vi) As at 31 December 2020, the non-current portion of bank borrowing of RMB635 million (31 December 2019: RMB489 million) is pledged by all earnings and equity of Jingu and Beicang upgrading project under the Group's concession right (Note 4(12) (a)). The non-current portion of bank borrowing of RMB51 million (2018: RMB43 million) is secured by account receivables of Hebei Gaocheng Economic Development Zone Management Committee under the concession service agreement. The non-current portion of bank borrowings of RMB395 million (31 December 2019: Nil) is pledged by the account receivables of "JiuQuan Suzhou the first and the second Sewage Treatment Plant PPP Project" (Note 4(12) (a)). The non-current portion of bank borrowings of RMB35 million (31 December 2019: Nil) is pledged by all earnings and equity of Huoqiu Capital Water Co., Ltd. under "PPP project contract for phase I of Chengbei No.2 sewage treatment plant in Huoqiu County, Lu'an City, Anhui Province" (Note 4(12) (a)).
- (vii) As at 31 December 2020, these long-term borrowings bear interest rates between 3.330% and 5.150% (31 December 2019: between 4.275% and 5.463%).
- (viii) According to different loan contracts, the asset-liability ratio of the borrower shall not be higher than 65% to 90% during the credit period. Without the consent of the lender, the assets formed from the loan under the loan contract shall not be used to provide guarantee to the third party.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Long-term borrowings, debentures payable, long-term payables, short-term borrowings and other liabilities (Continued)

(b) Debentures payable

	31 December 2019	Issue	Payment	Amortization	31 December 2020
Debentures payable					
– Par value	1,800,000	–	–	–	1,800,000
– Transaction cost	(2,611)	–	–	1,030	(1,581)
	<u>1,797,389</u>	<u>–</u>	<u>–</u>	<u>1,030</u>	<u>1,798,419</u>
Less: Current portion of debentures payable	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(699,571)</u>
	<u>1,797,389</u>	<u>–</u>	<u>–</u>	<u>1,030</u>	<u>1,098,848</u>

General information of debentures payable are as follows:

	Per Value	Issuance date	Maturity	Issuance amount
Corporate Debenture (note (i))	700,000	2016-10-25	5 years	700,000
Corporate Debenture (note (ii))	1,100,000	2018-04-26	5 years	1,100,000

Interests payable of debentures are analyzed as follows:

	31 December 2019	Interest Accrued		31 December 2020
		Interest accrued in the current year	Interest paid in the current year	
Corporate Debenture (note (i))	4,022	(21,910)	21,910	4,022
Corporate Debenture (note (ii))	38,952	(56,870)	56,870	38,952
	<u>42,974</u>	<u>(78,780)</u>	<u>78,780</u>	<u>42,974</u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2020
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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Long-term borrowings, debentures payable, long-term payables, short-term borrowings and other liabilities (Continued)

(b) Debentures payable (Continued)

- (i) On 25 October 2016, the Company issued a debenture at par value of RMB700 million on The Shanghai Stock Exchange as approved by the Securities Regulatory Commission of China [2016]1896. The fixed interest rate of 3.13% has been accrued and settled per annum. The principal will be repaid on maturity. As at 31 December 2020, the interest accrued on debentures payable to be paid within one year is RMB4 million, which is listed in Current portion of non-current liabilities.
- (ii) On 26 April 2018, the Company issued a debenture at par value of RMB1,100 million on The Shanghai Stock Exchange as approved by the Securities Regulatory Commission of China [2016]1896. The fixed interest rate of 5.17% has been accrued and settled per annum. The principal will be repaid on maturity. As at 31 December 2020, the interest accrued on debentures payable to be paid within one year is RMB39 million, which is listed in Current portion of non-current liabilities.

(c) Long-term payables

	31 December 2020			31 December 2019		
	Payables	Unrecognised financial charges	Total	Payables	Unrecognised financial charges	Total
Payable for assets acquisition	415,275	(132,435)	282,840	445,444	(154,553)	290,891

- (i) Information of long-term payables is as follows:

	Maturity date	Effective interest rate	Total	Current portion	Ending balance
Tianjin Sewage Company ("Sewage Company")	20 March 2041	5.94%	290,891	28,239	262,652
Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	3 September 2023	3.80%	16,200	(7,600)	8,600
			<u>282,840</u>	<u>(35,106)</u>	<u>247,734</u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Long-term borrowings, debentures payable, long-term payables, short-term borrowings and other liabilities (Continued)

(c) Long-term payables (Continued)

(i) Information of long-term payables is as follows: (Continued)

As at 31 December 2020, long-term payable to Sewage Company is the consideration payable in respect of the acquisition of sewage water processing assets from Sewage Company, net of unrecognised financing charges.

Pursuant to *Assets Transfer Agreement From Foreign Banks Loans About Haihe River Tianjin Sewage Processing Project and Beicang Sewage Processing Project* (the “Transfer Agreement”), Sewage Company sold to the Company certain sewage processing assets. The down payment is RMB261 million, and remaining payments will be settled in RMB translated at exchange rates prevailing on each repayment date over the remaining years. The fair value of the initial recognition of the payable balance is RMB430 million, which was calculated based on discounted future cash payments and discount rate of 5.94%.

The balance of the long-term payables to Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd. is the amount of sale-leaseback assets of Shandong Capital Environmental Protection Technology Consultant Co., Ltd..

(ii) The balance of long-term payable are denominated in the following currencies:

	31 December 2020	31 December 2019
JPY	196,100	205,685
USD	70,540	85,206
CNY	16,200	–
	<u>282,840</u>	<u>290,891</u>

(iii) The amounts of long-term payables (including interest) are denominated in the following currencies:

	31 December 2020	31 December 2019
JPY	321,972	344,880
USD	77,103	100,564
CNY	16,200	–
	<u>415,275</u>	<u>445,444</u>

The balance denominated in USD bears an interest rate at 6-month LIBOR plus 0.6%, whilst the balance denominated in JPY bears fixed interest rates at 1% and 1.55% per annum respectively.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Long-term borrowings, debentures payable, long-term payables, short-term borrowings and other liabilities (Continued)

(c) Long-term payables (Continued)

(iv) The long-term payables mature as follows. As at 31 December 2020, the current portion of long-term payables of RMB35 million (31 December 2019: RMB28 million) was classified as current liabilities.

	31 December 2020	31 December 2019
Within 1 year	35,106	28,239
1-2 years	29,188	27,465
2-5 years	76,901	78,625
Over 5 years	141,645	156,562
	<u>282,840</u>	<u>290,891</u>

(d) Short-term borrowings

	31 December 2020	31 December 2019
China Merchants Bank	<u>–</u>	<u>200,000</u>

Summary of short-term borrowings by terms

	31 December 2020	31 December 2019
Unsecured	<u>–</u>	<u>200,000</u>

(e) Other liabilities

	31 December 2020	31 December 2019
Non-current:		
– Cooling service fee	<u>34,000</u>	<u>36,000</u>
Current:		
– Entrusted loan to be paid within one year	<u>–</u>	<u>20,250</u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(17) Provisions

	31 December 2019	Increase in the current year	Decrease in the current year	31 December 2020
Maintenance cost of sewage water processing plants	24,598	2,072	(3,198)	23,472
Others	–	3,546	–	3,546
Less: Provisions expected to be paid within one year	(12,933)	(3,546)	3,198	(13,281)
	<u>11,665</u>	<u>2,072</u>	<u>–</u>	<u>13,737</u>

(18) Deferred income

Deferred revenue represents the subsidies received from governmental authorities with respects to Group's certain construction and research and development projects. Details of deferred revenue are as below:

	31 December 2019	Additions	Recognised in other income	31 December 2020	Relating to assets/costs
Sewage water processing project:					
– Jingu	1,207,260	–	(51,285)	1,155,975	assets
– Jingu upgrading project	156,480	–	(6,520)	149,960	assets
– Beichen upgrading project	86,400	–	(3,600)	82,800	assets
– Xianyang Road-upgrading project	56,716	–	(2,363)	54,353	assets
– Dongjiao upgrading project	39,798	–	(1,658)	38,140	assets
– Ningxiang upgrading project	17,348	–	(931)	16,417	assets
– Linxia reconstruction and extension project	9,392	–	(326)	9,066	assets
– Beishiqiao upgrading project	9,635	–	(719)	8,916	assets
– Chibi upgrading project	5,500	2,250	–	7,750	assets
Water recycling project:					
– Jingu	199,498	–	(5,564)	193,934	assets
– Dongjiao	20,406	–	(675)	19,731	assets
– Beichen	17,587	–	(525)	17,062	assets
– Xianyanglu	12,344	–	(441)	11,903	assets
Heating and cooling supply service project	210,269	6,207	(9,057)	207,419	assets
Others	11,069	683	(3,744)	8,008	costs
Total	<u>2,059,702</u>	<u>9,140</u>	<u>(87,408)</u>	<u>1,981,434</u>	

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Deferred tax assets and deferred tax liabilities

(a) *Deferred income tax assets before offsetting*

	31 December 2020		31 December 2019	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Provision for assets	145,668	36,417	69,322	17,330
Unrecognised financing income	61,224	15,306	–	–
Accrued expenses	26,870	6,717	10,000	2,500
Accrued liabilities	19,557	2,934	16,010	2,402
	<u>253,319</u>	<u>61,374</u>	<u>95,332</u>	<u>22,232</u>
Including:				
Expected to be recovered within one year (inclusive)		9,237		4,440
Expected to be recovered after one year		<u>52,137</u>		<u>17,792</u>
		<u>61,374</u>		<u>22,232</u>

(b) *Unrecognised deferred income tax assets*

- (i) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets are analyzed as follows:

	31 December 2020	31 December 2019
Deductible temporary difference – provision for assets	167,999	121,205
Deductible losses	77,775	58,667
Accrued liabilities	7,461	8,588
	<u>253,235</u>	<u>188,460</u>

- (ii) Deductible losses that are not recognised as deferred tax assets will expire in the following years:

	31 December 2020	31 December 2019
2020	–	6,243
2021	5,124	5,124
2022	3,466	3,466
2023	11,061	11,061
2024	32,774	32,773
2025	25,350	–
	<u>77,775</u>	<u>58,667</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Deferred tax assets and deferred tax liabilities (Continued)

(c) *Deferred income tax liabilities before offsetting*

	31 December 2020		31 December 2019	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Amortization of intangible assets	545,687	136,422	521,412	130,353
Business combination	51,146	12,786	53,028	13,257
	<u>596,833</u>	<u>149,208</u>	<u>574,440</u>	<u>143,610</u>
Including:				
Expected to be recovered within one year (inclusive)		5,123		4,848
Expected to be recovered after one year		144,085		138,762
		<u>149,208</u>		<u>143,610</u>

(d) *The net balances of deferred income tax assets and deferred income tax liabilities after offsetting are shown below:*

	31 December 2020		31 December 2019	
	Set-off amount	After offsetting the balance	Set-off amount	After offsetting the balance
Deferred income tax assets	(48,409)	12,965	(18,023)	4,209
Deferred income tax liabilities	<u>(48,409)</u>	<u>100,799</u>	<u>(18,023)</u>	<u>125,587</u>

(20) Share capital

Movement of the Company's authorized, issued and fully paid up capital is set out below. All of the Company's shares are ordinary shares with par value of RMB1.

	Circulating A shares	Circulating H shares	Total
At 31 December 2020, 31 December 2019 and 31 December 2018	<u>1,087,228</u>	<u>340,000</u>	<u>1,427,228</u>

All the A-shares and H-shares rank *pari passu* in all respects.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(21) Capital surplus, surplus reserve and undistributed profits

(a) Capital surplus

	31 December 2020, 31 December 2019 & 31 December 2018
Share premium	382,311
A subsidiary reformed as a stock limited company	16,804
Capital Increase by minority shareholders	31,909
	431,024

(b) Surplus reserve

	31 December 2019	Increase in the current year	Decrease in the current year	31 December 2020
Statutory surplus reserve	558,250	60,804	–	619,054
	31 December 2018	Increase in the current year	Decrease in the current year	31 December 2019
Statutory surplus reserve	517,107	41,143	–	558,250

Pursuant to the PRC Companies Law and the Company's Articles of Association, the Company is required to appropriate 10% of its net profit for the year to the statutory surplus reserve, which can be ceased till the reserve reaches 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the paid in capital after approval from the appropriate authorities.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(21) Capital surplus, surplus reserve and undistributed profits (Continued)

(c) Undistributed profits

	2020	2019
Undistributed profits at the beginning of the year	3,757,523	3,442,844
Add: Net profit attributable to owners of the parent for the current year	570,039	507,107
Less: Appropriation for statutory surplus reserve	(60,804)	(41,143)
Ordinary share dividends payable (note (i))	<u>(152,713)</u>	<u>(151,285)</u>
Undistributed profits at the end of the year	<u><u>4,114,045</u></u>	<u><u>3,757,523</u></u>

(i) As at 13 May 2020, the board of shareholders proposed a cash of RMB1.07 (gross tax) for every 10 shares to all shareholders on the basis of 1,427 million shares issued. Cash dividends to be distributed amounted to RMB153 million.

(ii) As at 25 March 2021, the board of directors proposed that the Company shall distribute a cash dividend of RMB1.20 (gross tax) for every 10 shares to all shareholders, a total of RMB171 million based on the issued shares. The above proposal is subject to the approval of the general meeting of shareholders (note10 (1)).

(22) Revenue and cost of sales

	2020		2019	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operations	3,127,127	2,025,418	2,662,361	1,799,789
Other operations	<u>236,747</u>	<u>159,701</u>	<u>189,092</u>	<u>140,015</u>
	<u><u>3,363,874</u></u>	<u><u>2,185,119</u></u>	<u><u>2,851,453</u></u>	<u><u>1,939,804</u></u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Revenue and cost of sales (Continued)

(a) Revenue from principal operations and cost of sales

Analysis by the nature of services is as below:

	2020		2019	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Processing of sewage water	2,392,487	1,554,079	2,025,026	1,387,280
Water recycling and connection project	317,109	226,520	283,813	211,365
Tap water supplying	99,299	80,755	105,374	76,523
Hazardous waste treatment	77,375	46,359	14,100	4,939
Heating and cooling supply services	100,610	67,103	101,377	70,126
Sale of environmental protection equipment	43,232	14,829	44,386	19,374
Others	97,015	35,773	88,285	30,182
	<u>3,127,127</u>	<u>2,025,418</u>	<u>2,662,361</u>	<u>1,799,789</u>

Analysis by locations is as follows:

	2020		2019	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Tianjin	1,774,475	1,105,418	1,599,439	1,026,646
Hangzhou	259,286	160,279	254,208	181,455
Xi'an	163,275	115,318	146,976	110,642
Fuyang	129,627	74,687	113,447	74,851
Others	800,464	569,716	548,291	406,195
	<u>3,127,127</u>	<u>2,025,418</u>	<u>2,662,361</u>	<u>1,799,789</u>

(b) Revenue from other operations and cost of sales

	2020		2019	
	Revenue from other operations	Cost of sales	Revenue from other operations	Cost of sales
Contract operation income	173,563	142,643	168,871	125,866
Technical service fee	45,242	6,994	10,727	7,837
Agent construction services	7,197	4,336	1,936	917
Rental income (i)	768	26	1,013	2,260
Others	9,977	5,702	6,545	3,135
	<u>236,747</u>	<u>159,701</u>	<u>189,092</u>	<u>140,015</u>

- (i) The Group's rental income comes from the rental of its own buildings and structures. For year ending 31 December 2020, there's no variable rental income based on a certain percentage of the lessee's sales.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Revenue and cost of sales (Continued)

(c) The Group's operating income listed as follows:

	Processing of sewage			2020				Others	Group
	Tianjin	Hangzhou	Others	Recycled water and pipeline connection	Heating and cooling supply	Tap water	Sale of environmental protection equipment		
Revenue	1,270,965	259,286	862,236	317,109	100,610	99,299	43,232	174,390	3,127,127
Of which: confirm at a point in time	-	-	-	-	-	-	-	27,049	27,049
Confirm over time	1,270,965	259,286	862,236	317,109	100,610	99,299	43,232	147,341	3,100,078
Other operating income	-	-	-	-	-	-	-	236,747	236,747
Of which: confirm at a point in time	-	-	-	-	-	-	-	-	-
Confirm over time	-	-	-	-	-	-	-	236,747	236,747
	<u>1,270,965</u>	<u>259,286</u>	<u>862,236</u>	<u>317,109</u>	<u>100,610</u>	<u>99,299</u>	<u>43,232</u>	<u>411,137</u>	<u>3,363,874</u>
	Processing of sewage			2019				Others	Group
Tianjin	Hangzhou	Others	Recycled water and pipeline connection	Heating and cooling supply	Tap water	Sale of environmental protection equipment			
Revenue	1,122,467	254,208	648,351	283,813	101,377	105,374	44,386	102,385	2,662,361
Of which: confirm at a point in time	-	-	-	-	-	-	-	18,875	18,875
Confirm over time	1,122,467	254,208	648,351	283,813	101,377	105,374	44,386	83,510	2,643,486
Other operating income	-	-	-	-	-	-	-	189,092	189,092
Of which: confirm at a point in time	-	-	-	-	-	-	-	-	-
Confirm over time	-	-	-	-	-	-	-	189,092	189,092
	<u>1,122,467</u>	<u>254,208</u>	<u>648,351</u>	<u>283,813</u>	<u>101,377</u>	<u>105,374</u>	<u>44,386</u>	<u>291,477</u>	<u>2,851,453</u>

As at 31 December 2020, based on the pre-determined agreement price, and actual processing and supplying amount, the Group issues bills to customers at fixed period for its sewage operation services, supplies of recycled water and tap water. The bill can represent the value that the Group has transferred to customers. All consideration is included in the bills amount thus the Group did not disclose the transaction price allocated to the remaining performance obligations.

As at 31 December 2020, the consideration for pipeline connection services of approximately RMB557 million (2019: RMB556 million) of which the contracts were signed but the performance obligation is not yet fully completed, and revenue will be recognised over time based on the progress towards the completion of related performance obligations in the following years.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Revenue and cost of sales (Continued)

(c) *The Group's operating income listed as follows:* (Continued)

As at 31 December 2020, the consideration for heating supply services of approximately RMB7 million (2019: RMB8 million) of which the contracts were signed but the performance obligation is not yet fully completed. The related revenue is expected to be recognised in 2021.

As at 31 December 2020, the consideration for certain entrusted sewage operation services of RMB91 million (2019: RMB61 million) of which the contracts were signed but the performance obligations is not yet fully completed, among which the Group expects the related revenue of approximately RMB90 million and RMB1 million will be recognised in 2021 and 2022 respectively.

As at 31 December 2020, the consideration for agent construction project of RMB6 million (2019: RMB13 million) of which the contracts were signed but the performance obligations are not yet fully completed. The related revenue is expected to be recognised in 2021.

As at 31 December 2020, a contract of tolls road service fee of RMB509 million (2019: RMB571 million) was signed but the performance obligations is not yet fully completed, among which the Group expects to recognise revenue of approximately RMB62 million in every year from 2020 to 2028, and revenue of approximately RMB13 million in 2029.

(23) Taxes and surcharges

	2020	2019	Tax base
Land use tax	17,110	16,820	RMB1.5-30 per square meter
Property tax	12,150	7,591	Self-use: 1.2% (deducted 30% of the original value of the property)
City maintenance and construction tax	10,161	10,740	Rental: 12% of the rental income
Educational surcharge	4,559	4,956	7%/5% of the VAT paid
Local educational surcharge	3,029	2,958	2%/3% of the VAT paid
Others	1,760	2,651	
	<u>48,769</u>	<u>45,716</u>	

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS(Continued)

(24) Selling expenses and general and administrative expenses

	2020		2019	
	General and administrative expenses	Selling expenses	General and administrative expenses	Selling expenses
Employee benefits	124,623	5,865	114,069	3,660
Consulting service fees	13,060	8,718	10,786	2,054
Depreciation of fixed assets	9,558	17	8,564	17
General office expenses	6,415	61	6,114	23
Travelling, meeting and business entertainment expenses	5,521	653	5,874	611
Expenses of secretary of the board	4,378	–	4,789	–
Repair and maintenance expenses	3,430	–	3,358	–
Audit fees	3,300	–	3,300	–
Amortisation of intangible assets	2,813	–	2,884	–
Utilities	2,027	–	2,506	–
Other taxes	1,173	–	1,638	–
Others	1,780	565	4,779	710
	<u>178,078</u>	<u>15,879</u>	<u>168,661</u>	<u>7,075</u>

(25) Research and development expenses

	2020	2019
Employee benefits	7,128	6,775
Raw materials consumption	3,735	7,680
Consulting service fees	103	70
General office expenses	79	7
Travelling, meeting and business entertainment expenses	37	192
Others	2,119	3,201
	<u>13,201</u>	<u>17,925</u>

(26) Financial expenses

	2020	2019
Loan Interest expenses	311,736	250,341
Less: Amount capitalized on qualifying assets	<u>(39,706)</u>	<u>(36,359)</u>
Interest expenses	272,030	213,982
Less: Interest income	(23,035)	(23,951)
Including: From long-term receivables	(8,631)	(9,405)
From bank deposits	(14,404)	(14,546)
Exchange (gains)/losses	(10,490)	8,813
Others	595	552
	<u>239,100</u>	<u>199,396</u>

In 2020, the exchange gains on the long-term payables denominated in JPY and US dollar were RMB10 million (In 2019: RMB9 million of the exchange loss).

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2020
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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Expenses listed by nature

The cost of sales, selling expenses, general and administrative expenses and research and development expenses in the income statement are listed as follows by nature:

	2020	2019
Amortisation of intangible assets	518,939	465,243
Raw materials consumption	439,438	352,215
Employee benefits	371,557	350,018
Utilities	353,804	342,274
Repair and maintenance expenses	201,931	181,978
Recycled water pipeline connection cost	100,629	92,234
Sewage mud processing expenses	97,742	93,930
Depreciation of fixed assets and investment properties	54,282	44,240
Factory environment, detection and fire prevention fee	43,015	36,759
Construction cost of environmental equipment	40,378	36,202
Consulting service fees	34,062	20,416
Network maintenance expenses	24,263	17,330
Travelling, meeting and business entertainment expenses	20,509	21,390
General office expenses	10,251	9,412
Toll road management fee	7,120	7,120
Expenses of secretary of the board	5,328	4,789
Audit fees	3,300	3,300
Other taxes	1,652	2,663
Others	64,077	51,952
	<u>2,392,277</u>	<u>2,133,465</u>

(28) Other Income

	2020	2019	
Government Grants (a)	96,577	108,103	Assets/Incomes
VAT refund	65,700	58,874	Incomes
Withholding and paying individual income tax refund	133	12	
	<u>162,410</u>	<u>166,989</u>	

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2020
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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(28) Other Income (Continued)

(a) Details of government grants

	2020	2019	Related to assets/incomes
Compensation for construction of Jingu sewage processing plant	51,285	51,285	Assets
Capital Alternative cooling and heating subsidy	9,057	8,385	Assets/Incomes
Allowance for Jingu-upgrading energy conservation	6,520	6,520	Incomes
Compensation for construction of Jingu recycling water plant	5,564	6,895	Assets
Allowance for Beichen-upgrading energy conservation	3,600	3,600	Incomes
Special funds for Research and development center projects	3,454	5,939	Incomes
Special construction fund of Xianyanglu upgrading project	2,363	2,363	Assets
Special construction fund of Dongjiao sewage water processing plant	1,658	1,658	Assets
Municipal sludge allowance of Xi'an company	1,200	1,457	Incomes
Xianning Green Industry Support Fund	–	5,989	Incomes
Electricity subsidy for sewage treatment in Hanzhou	–	3,392	Incomes
Operation subsidy for Bayannur Capital Water Co., Ltd.	–	1,547	Incomes
Special allowance for sewage treatment in Qujing	–	752	Incomes
Others-Related to assets	3,617	2,311	
Others-Related to assets	8,259	6,010	Assets/Incomes
	<u>96,577</u>	<u>108,103</u>	

(29) Assets impairment losses

	2020	2019
Provision for impairment of intangible assets (note 4 (12)(a)(vi))	28,551	–
Provision for impairment of other current assets (note 4 (7)(a))	6,257	26,808
	<u>34,808</u>	<u>26,808</u>

(30) Credit impairment losses

	2020	2019
Trade receivables losses	87,573	31,372
Other receivables losses	(5)	11
Long-term receivables losses	764	–
	<u>88,332</u>	<u>31,383</u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(31) Gains on disposals of assets

	2020	2019	Amount recognised in non-recurring profit or loss in 2020
Gains on disposals of other current assets (i)	–	48,703	–
Gains on disposals of fixed assets	<u>67</u>	<u>1,294</u>	<u>67</u>
	<u><u>67</u></u>	<u><u>49,997</u></u>	<u><u>67</u></u>

(i) In July 2019, the group received compensation for tap water assets of Anguo about 53 million yuan and confirmed the asset disposal income of about RMB49 million.

(32) Non-operating income

	2020	2019	Amount recognised in non-recurring profit or loss in 2020
Write off accounts payable	830	–	830
Others	<u>977</u>	<u>2,469</u>	<u>977</u>
	<u><u>1,807</u></u>	<u><u>2,469</u></u>	<u><u>1,807</u></u>

(33) Non-operating expenses

	2020	2019	Amount recognised in non-recurring profit or loss in 2020
Donation	2,388	2,379	2,388
Losses on disposal of fixed assets	46	590	46
Others	<u>4,254</u>	<u>1,622</u>	<u>4,254</u>
	<u><u>6,688</u></u>	<u><u>4,591</u></u>	<u><u>6,688</u></u>

(34) Income tax expenses

	2020	2019
Current income tax calculated based on tax law and related regulations	145,590	118,021
Deferred income tax	<u>(33,544)</u>	<u>(17,434)</u>
	<u><u>112,046</u></u>	<u><u>100,587</u></u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(34) Income tax expenses (Continued)

The reconciliation from income tax calculated based on the applicable tax rates and total profits presented in the consolidated financial statements to the income tax expenses is set below:

	2020	2019
Total profit	718,184	629,549
Calculated at applicable income tax rates (25%)	179,546	157,387
Effect of favorable tax rates	(57,102)	(33,195)
Income not subject to tax	(51,925)	(37,070)
Costs, expenses and losses not deductible for tax purposes	24,017	21,664
Utilization of previously tax temporary differences for which no deferred income tax asset was recognised	(282)	(7,818)
Recognition of previously unrecognized deductible temporary differences	–	(6,118)
Utilization of previously deductible tax losses for which no deferred income tax assets was recognised	(2,44)	(2,456)
Deductible losses for which no deferred income tax asset was recognised	6,337	8,193
Deductible temporary differences for which no deferred income tax asset was recognised	11,699	–
Income tax expenses	<u>112,046</u>	<u>100,587</u>

(35) Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated based on the profit attributable to owners of the parent of RMB570 million (2019: RMB507 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2019: 1,427 million shares).

	2020	2019
Consolidated net profit attributable to ordinary shareholders of the Company	570,039	507,107
Weighted average number of ordinary shares in issue (thousand shares)	1,427,228	1,427,228
Basic earnings per share (RMB Yuan)	<u>0.40</u>	<u>0.36</u>
Including:		
– Basic earnings per share for operations on a going concern	0.40	0.36
– Basic earnings per share for discontinued operations	–	–

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(35) Earnings per share (Continued)

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing net profit attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary shares by the adjusted weighted average number of ordinary shares outstanding. As there were no dilutive potential ordinary shares in 2020 (2019: Nil), diluted earnings per share equal to basic earnings per share.

(36) Notes to the cash flow statements and supplementary information

(a) Reconciliation of net profit to cash flows from operating activities

	2020	2019
Net profit	<u>606,138</u>	<u>528,962</u>
Add:		
Provision for asset impairments	34,808	26,808
Credit impairment losses	88,332	31,383
Depreciation of fixed assets and investment properties	54,282	44,240
Amortisation of intangible assets	518,939	465,243
Net (gains)/losses from disposal of fixed assets	(21)	(49,407)
Net financial expenses	261,540	222,795
Increase in deferred income assets	(8,756)	(4,209)
Amortisation of deferred income	(87,408)	(91,117)
Decrease/(increase) in deferred tax liabilities	(24,788)	(13,225)
(Increase)/decrease in inventories	(2,655)	(814)
Decrease in operating receivables	(942,036)	(535,682)
Increase/(decrease) in operating payables	<u>34,061</u>	<u>259,956</u>
Net cash flows from operating activities	<u>532,436</u>	<u>884,933</u>
Net movement in cash		
Cash at the end of the year	1,652,657	2,066,301
Less: Cash at the beginning of the year	<u>(2,066,301)</u>	<u>(1,808,543)</u>
Net increase/(decrease) in cash	<u>(413,644)</u>	<u>257,758</u>

(b) Under the Restoration and Non-monetary Assets Exchange Arrangement as mentioned in Note 12(a) (iii), the Company has transferred its entire interests in the Dongjiao Sewage Plant (including the land) to the Tianjin Government on 1 September 2020 in exchange for the new operating plant as freely provided by the Tianjin Government to continue the related sewage processing operations till the end of the related concession right agreement.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(36) Notes to the cash flow statements and supplementary information (Continued)

(c) Cash listed in the cash flow statement comprises:

	2020	2019
Cash		
Including: Cash on hand	14	37
Cash at bank	1,652,643	2,066,264
	<u>1,652,657</u>	<u>2,066,301</u>
Cash listed in cash flow statement	<u>1,652,657</u>	<u>2,066,301</u>

(d) Cash received relating to other operating activities

	2020	2019
Government grants received	18,309	66,720
Interest income from bank deposits	14,404	14,546
Deposit on project bids received	28,800	9,865
Others	1,946	2,467
	<u>63,459</u>	<u>93,598</u>

(e) Cash paid relating to other operating activities

	2020	2019
Deposit on project bids paid	8,799	17,790
Consulting service fees	24,776	16,210
Travelling, meeting and business entertainment expenses	6,211	6,677
Repair and maintenance expenses	3,526	5,159
Expenses of secretary of the board	4,378	4,789
Financial expenses	595	552
Others	12,789	15,078
	<u>61,074</u>	<u>66,255</u>

(f) Net cash received from disposals of fixed assets

	2020	2019
Carrying amount of disposals of fixed assets	602	1,881
Carrying amount of disposals of other current assets	–	3,848
Net gains from disposal of other current assets	–	48,703
Net losses from disposal of fixed assets	(46)	(590)
Net gains/(losses) from disposal of fixed assets	67	1,294
	<u>623</u>	<u>55,136</u>
Net cash received from disposals of fixed assets	<u>623</u>	<u>55,136</u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises

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5 CHANGE IN CONSOLIDATION SCOPE

In 2020, the Company contributed RMB33 million to set up Huize Capital Water Co., Ltd.; RMB37 million to set up Huoqiu Capital Water Co., Ltd. and RMB3 million to set up Dongying Tianchi Environmental Protection Technology Consultant Co., Ltd.. The shareholding ratio is 79%,90% and 51% respectively.

6 EQUITY IN OTHER ENTITIES

(a) Subsidiaries

Name of subsidiaries	Type of subsidiary	Major business location	Place of registration	Nature of business and business activity	Shareholding (%)		Establishment
					Direct	Indirect	
Qijing Capital Water Co., Ltd.	A	Qijing	Qijing	Processing of sewage water, tap water supply	87	-	Capital contribution
Guizhou Capital Water Co., Ltd.	A	Guizhou	Guizhou	Processing of sewage water	95	-	Capital contribution
Baoying Capital Water Co., Ltd.	A	Baoying	Baoying	Processing of sewage water	70	-	Capital contribution
Hangzhou Tianchuang Capital Water Co., Ltd.	A	Hangzhou	Hangzhou	Processing of sewage water	70	-	Capital contribution
Tianjin Capital New Materials Co., Ltd.	A	Tianjin	Tianjin	Manufacturing and sale of new building materials	71	-	Capital contribution
Fuyang Capital Water Co., Ltd.	B	Fuyang	Fuyang	Processing of sewage water	100	-	Capital contribution
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	B	Hong Kong	Hong Kong	Processing of sewage water	100	-	Capital contribution
Wendeng Capital Water Co., Ltd.	B	Wendeng	Wendeng	Processing of sewage water	100	-	Capital contribution
Tianjin Jing Hai Capital Water Co., Ltd.	B	Tianjin	Tianjin	Processing of sewage water	100	-	Capital contribution
Tianjin Water Recycling Co., Ltd.	B	Tianjin	Tianjin	Production and sales of recycled water, development and construction of water recycling facilities, and technical consulting for water recycling business	100	-	Capital contribution
Xi'an Capital Water Co., Ltd.	B	Xi'an	Xi'an	Processing of sewage water	100	-	Capital contribution
Tianjin Caring Technology Development Co., Ltd	A	Tianjin	Tianjin	Environment governance, technical consulting, etc.	48	12	Capital contribution
Anguo Capital Water Co., Ltd.	B	Anguo	Anguo	Processing of sewage	100	-	Capital contribution
Wuhan Tianchuang Capital Water Co.,Ltd.	B	Wuhan	Wuhan	Processing of sewage water, tap water supply	100	-	Capital contribution
Tianjin Jinning Capital Water Co., Ltd.	B	Tianjin	Tianjin	Processing of sewage water	100	-	Capital contribution
Tianjin Capital Alternative Energy Technology Co., Ltd	B	Tianjin	Tianjin	Energy saving, innovative energy research, consulting and transfer services, property management	100	-	Capital contribution
Yingshang Capital Water Co., Ltd.	B	Yingshang	Yingshang	Processing of sewage water	100	-	Capital contribution
Shandong Capital Environmental Protection Technology Development Co., Ltd.	A	Shandong	Shandong	Investment in and construction of sewage water processing facilities	55	-	Capital contribution
Changsha Tianchuang Environmental Protection Co., Ltd.	A	Changsha	Changsha	Processing of sewage water	81	-	Capital contribution
Karamay Tianchuang Capital Water Co., Ltd.	A	Karamay	Karamay	Processing of sewage water	90	-	Capital contribution
Anhui Tianchuang Capital Water Co., Ltd.	B	Hefei	Hefei	Processing of sewage water	100	-	Capital contribution
Linxia Capital Water Co., Ltd	B	Linxia	Linxia	Processing of sewage water	100	-	Capital contribution
Dalian Oriental Chunliuhe Water Quality Purification Co., Ltd.	A	Dalian	Dalian	Processing of sewage water	64	-	Capital contribution
Changsha Tianchuang Capital Water Co., Ltd.	A	Changsha	Changsha	Processing of sewage water	80	-	Capital contribution
Inner Mongolia Bayannur Capital Water Co., Ltd.	A	Bayannur	Bayannur	Processing of sewage water, producing and selling of recycled water, supplying tap water	70	-	Business combination
Honghu Tianchuang Capital Water Co., Ltd.	A	Honghu	Honghu	Processing of sewage water	85	-	Capital contribution
Hefei Capital Water Co., Ltd.	B	Hefei	Hefei	Processing of sewage water	100	-	Capital contribution
Deqing Capital Water Co., Ltd.	A	Deqing	Deqing	Processing of sewage water	90	-	Capital contribution
Hebei Guojin Tianchuang Sewage Water Processing Co., Ltd.	A	Gaocheng	Gaocheng	Processing of sewage water, producing and selling of recycled water	59	-	Capital contribution
Hanshou Tianchuang Capital Water Co., Ltd.	A	Hanshou	Hanshou	Supplying tap water	75	-	Capital contribution
Jiuquan Capital Water Co., Ltd.	A	Jiuquan	Jiuquan	Processing of sewage water and reusing of reclaimed water	89	-	Capital contribution
Huize Capital Water Co., Ltd.	A	Huize	Huize	Centralized water supply, Processing of sewage water	79	-	Capital contribution
Huoqiu Capital Water Co., Ltd.	A	Huoqiu	Huoqiu	Processing of sewage water	90	-	Capital contribution
Dongying Tianchi Environmental Protection Technology Consultant Co., Ltd.	A	Dongying	Dongying	Solid waste treatment	51	-	Capital contribution

A: Holding subsidiary

B: Wholly-owned subsidiary

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6 EQUITY IN OTHER ENTITIES (Continued)

(b) Subsidiaries with significant minority interests

Name	Minority interests ratio	Minority interests in 2020	Declared distribution of cash dividends in 2020	Minority interests as at 31 December 2020
Hangzhou Tianchuang Capital Water Co., Ltd. ("Hangzhou Company")	30.00%	23,813	25,683	212,188
Bayannur Capital Water Co., Ltd. ("Bayannur Company")	30.00%	(4,192)	–	333,206
Tianjin Caring Technology Development Co., Ltd. ("Caring Company")	40.00%	4,749	4,800	49,598
Shandong Capital Environmental Protection Technology Development Co., Ltd. ("Shandong Company")	45.00%	2,228	–	84,341
Hebei Guojin Tianchuang Sewage Water Processing Co., Ltd. ("Guojin Company")	41.00%	2,302	–	91,450

The major financial information of the significant holding subsidiaries of the Group is listed below:

Balance Sheet

	31 December 2020					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou Company	257,033	634,735	891,768	83,606	100,870	184,476
Bayannur Company	111,109	1,023,152	1,134,261	17,762	5,811	23,573
Caring Company	154,949	6,522	161,471	37,246	229	37,475
Shandong Company	59,411	504,874	564,285	81,836	293,825	375,661
Guojin Company	27,572	270,892	298,464	24,072	51,343	75,415
	<u>610,074</u>	<u>2,440,175</u>	<u>3,050,249</u>	<u>244,522</u>	<u>452,078</u>	<u>696,600</u>

	31 December 2019					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou Company	277,436	722,580	1,000,016	153,740	132,751	286,491
Bayannur Company	90,362	1,061,028	1,151,390	14,870	11,861	26,731
Caring Company	146,105	8,032	154,137	29,747	266	30,013
Shandong Company	57,661	425,597	483,258	104,957	194,431	299,388
Guojin Company	58,759	200,676	259,435	–	42,000	42,000
	<u>630,323</u>	<u>2,417,913</u>	<u>3,048,236</u>	<u>303,314</u>	<u>381,309</u>	<u>684,623</u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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6 EQUITY IN OTHER ENTITIES (Continued)

(b) Subsidiaries with significant minority interests (Continued)

Income Statement

	2020			
	Revenue	Net profit	Total comprehensive income	Net cash flows from operating activities
Hangzhou Company	259,560	79,377	79,377	94,918
Bayannur Company	82,657	(13,972)	(13,972)	15,918
Caring Company	129,356	11,872	11,872	8,366
Shandong Company	77,425	4,754	4,754	2,118
Guojin Company	12,567	5,615	5,615	(1,579)
	<u>561,565</u>	<u>87,646</u>	<u>87,646</u>	<u>119,741</u>
	2019			
	Revenue	Net profit	Total comprehensive income	Net cash flows from operating activities
Hangzhou Company	254,539	31,091	31,091	130,900
Bayannur Company	85,615	13,466	13,466	9,578
Caring Company	122,493	8,785	8,785	12,899
Shandong Company	14,387	(4,590)	(4,590)	4,873
Guojin Company	-	(62)	(62)	(56)
	<u>477,034</u>	<u>48,690</u>	<u>48,690</u>	<u>158,194</u>

The information above is the amount before offsetting between the companies in the Group.

(c) Non-essential information of associates

	2020	2019
Joint ventures:		
Total book value of investment	195,000	195,000
The total of the following items calculated according to the shareholding ratio		
Net profit (i)	-	-
Other comprehensive income (i)	-	-
Total comprehensive income	-	-

- (i) Both net profit and other comprehensive income have considered the fair value of identifiable assets and liabilities at the time of investment and the adjustment effect of the unified accounting policies.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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7 SEGMENT INFORMATION

The reportable segments of the Group are the business units that provide different products or service, or operate in the different areas. Different businesses or areas require different technologies and marketing strategies, the Group, therefore, separately manages the production and operation of each reportable segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance.

The Group considers the business from both service and geographical perspective. From a service perspective, management assesses the performance of processing of sewage water, recycled water, pipeline connection, heating and cooling service, sales of tap water and sale of environmental protection equipment. Processing of sewage water is further evaluated on a geographical basis (Tianjin plants, Hangzhou plant and other plants). The environmental protection equipment sold by the Group is mainly the result of scientific research transformation of the technical know-how in the environment protection area. Other services include contract operation services, rental income and technical services etc. These are not separately presented within the reportable operating segments, but included in the 'all other segments' column. The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment's revenue.

(a) Segment information as at and for the year ended 31 December 2020 is as follows:

	Processing of sewage		Others	Recycled water and pipeline connection	Heating and cooling supply	Tap water	Sale of environmental protection equipment	All other segments	Group
	Tianjin	Hangzhou							
Revenue from external customers (Note 4(22))	1,270,965	259,286	862,236	317,109	100,610	99,299	43,232	411,137	3,363,874
Cost for operations	(802,567)	(160,279)	(591,233)	(226,520)	(67,103)	(80,755)	(14,829)	(241,833)	(2,185,119)
Interest income (Note 4(26))	12,536	877	3,184	4,130	478	30	1,503	297	23,035
Interest expenses (Note 4(26))	(176,528)	(5,662)	(77,468)	(696)	(1,945)	(768)	-	(8,963)	(272,030)
Results before share of profits of an associate	256,142	81,367	150,986	84,941	43,149	1,122	21,435	79,042	718,184
Segment total profit	256,142	81,367	150,986	84,941	43,149	1,122	21,435	79,042	718,184
Income tax expenses	(50,483)	(2,214)	(12,353)	(25,738)	(10,656)	(696)	(959)	(8,947)	(112,046)
Segment net profit	205,659	79,153	138,633	59,203	32,493	426	20,476	70,095	606,138
Net profit									<u>606,138</u>
Depreciation expenses	(13,334)	-	(3,302)	(17,195)	(1,338)	(41)	(300)	(18,772)	(54,282)
Amortization	(147,568)	(53,941)	(226,138)	(7,810)	(24,286)	(15,813)	-	(43,383)	(518,939)
Segment assets	7,072,581	880,871	7,204,756	976,934	672,597	464,438	53,894	1,281,898	18,607,969
Long-term equity investment in associate									<u>195,000</u>
Total assets									<u>18,802,969</u>
Total liabilities	<u>(5,883,576)</u>	<u>(184,476)</u>	<u>(3,158,339)</u>	<u>(915,864)</u>	<u>(326,655)</u>	<u>(7,375)</u>	<u>(12,525)</u>	<u>(732,516)</u>	<u>(11,221,326)</u>
Non-current assets addition (i)	<u>16,322</u>	<u>-</u>	<u>700,661</u>	<u>13,570</u>	<u>32,284</u>	<u>28,154</u>	<u>21</u>	<u>103,918</u>	<u>894,930</u>

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7 SEGMENT INFORMATION (Continued)

(b) Segment information as at and for the year ended 31 December 2019 is as follows:

	Processing of sewage			Recycled water and pipeline connection	Heating and cooling supply	Tap water	Sale of environmental protection equipment	All other segments	Group
	Tianjin	Hangzhou	Others						
Revenue from external customers (Note 4(22))	1,122,467	254,208	648,351	283,813	101,377	105,374	44,386	291,477	2,851,453
Cost for operations	(731,946)	(181,455)	(473,879)	(211,365)	(70,126)	(76,523)	(19,374)	(175,136)	(1,939,804)
Interest income (Note 4(26))	12,498	1,820	2,874	4,463	855	28	1,186	227	23,951
Interest expenses (Note 4(26))	(126,783)	(11,077)	(69,493)	(56)	(3,197)	(1,712)	(9)	(1,655)	(213,982)
Results before share of profits of an associate	244,286	43,250	137,120	84,287	38,342	24,583	16,219	41,462	629,549
Segment total profit	244,286	43,250	137,120	84,287	38,342	24,583	16,219	41,462	629,549
Income tax expenses	(31,569)	(12,410)	(15,234)	(23,099)	(7,753)	(920)	(374)	(9,228)	(100,587)
Segment net profit	212,717	30,840	121,886	61,188	30,589	23,663	15,845	32,234	528,962
Net profit									<u>528,962</u>
Depreciation expenses	(19,523)	–	(605)	(19,108)	(296)	(1,132)	(521)	(3,055)	(44,240)
Amortization	(170,702)	(62,648)	(177,327)	(7,996)	(23,186)	(17,330)	(1)	(6,053)	(465,243)
Segment assets	6,779,197	981,119	6,625,106	985,548	705,829	507,909	57,814	1,153,285	17,795,807
Long-term equity investment in associate									<u>195,000</u>
Total assets									<u>17,990,807</u>
Total liabilities	<u>(6,090,474)</u>	<u>(286,491)</u>	<u>(2,714,905)</u>	<u>(846,306)</u>	<u>(374,378)</u>	<u>(32,434)</u>	<u>(11,257)</u>	<u>(492,375)</u>	<u>(10,848,620)</u>
Non-current assets addition (i)	<u>121,112</u>	<u>–</u>	<u>1,585,870</u>	<u>54,656</u>	<u>53,621</u>	<u>73,918</u>	<u>–</u>	<u>226,177</u>	<u>2,115,354</u>

(i) Non-current assets do not include financial assets, long-term equity investments, or deferred tax assets.

The Group's revenue from external customers comes from China.

The Group's non-current assets are located within China.

The income from processing of sewage water segment of RMB1,258 million is derived from a single customer, accounting for 37% of the Group's total revenue (For the year ended 31 December 2019: RMB1,110 million, 39%).

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8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Information of the parent of the Company

(a) General information of the parent company

	Type	Place of registration	Legal representative	Nature of business and principal activities
Municipal Investment	Limited company	Tianjin, China	Yu Zhongpeng	Development and management of municipal infrastructures

The Company's ultimate controlling party is City Infrastructure Construction and Investment.

(b) Registered capital and changes in registered capital of the parent company

	31 December 2019	Increase in the year	Decrease in the year	31 December 2020
Municipal Investment	1,820,000	–	–	1,820,000

(c) The percentages of shareholding and voting rights in the Company held by the parent company

	31 December 2020		31 December 2019	
	Share holding (%)	Voting Rights (%)	Share holding (%)	Voting Rights (%)
Municipal Investment	50.14%	50.14%	50.14%	50.14%

(2) Information of subsidiaries

The general information and other related information of the subsidiaries is set out in Note 6.

(3) Information of associates

The general information and other related information of the associates is set out in Note 4(9) (a).

(4) Information of other related parties

	Relationship with the Group
Tianjin Lecheng Properties Co., Ltd.	Controlled by the same ultimate holding company
Tianjin City Resource Operation Co., Ltd.	Controlled by the same ultimate holding company
Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	Controlled by the same ultimate holding company

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(5) Related party transactions

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of significant related party transactions between the Group and its related parties during the year:

(a) Purchase or sale of goods, provide or receive of services

Purchase of goods, receive of services:

Related Party Name	Nature of Transaction	2020	2019
City Infrastructure Construction and Investment	Contracted operating expenses	7,426	-

Rendering of services

Related party name	Nature of transaction	2020	2019
City Infrastructure Construction and Investment	Commission income from contract operation	84,004	84,738
Tianjin Lecheng Properties Co., Ltd.	Income from heating and cooling supply	28,763	33,165
City Infrastructure Construction and Investment	Commission income from technical services	6,467	1,936
		<u>119,234</u>	<u>119,839</u>

Pricing on heating supply service with related parties is based on the reference price stipulated by government. Pricing on other services with related parties is negotiated by counter parties and referred to the market price.

(b) Sale-leaseback

Rent payment

Funders	Type of leased assets	2020	2019
Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	Fixed assets	3,800	-

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8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(c) Guarantee:

The Group serves as guarantee.

Guarantor	Guarantee	Amount	Starting date	Due date	Fully performed or not
City Infrastructure Construction and Investment	Xi'an Capital Water Co., Ltd.	71,000	28 September 2008	27 September 2022	No

(d) Key management compensation

	2020	2019
Key management compensation	<u>12,137</u>	<u>11,998</u>

(6) Receivables from and payables to related parties

Receivables from related parties

	Related party name	31 December 2020		31 December 2019	
		Carrying amount	Provision	Carrying amount	Provision
Trade receivable	City Infrastructure Construction and Investment	46,537	2,495	60,423	3,208
	Tianjin Lecheng Properties Co., Ltd.	21,342	146	4,650	312
	Tianjin City Resource Operation Co., Ltd.	401	401	401	136
		<u>68,280</u>	<u>3,042</u>	<u>65,474</u>	<u>3,656</u>

The receivables from related parties arise mainly from daily transactions and are due within one year after the date of sales. The receivables are unsecured in nature and bear no interest. RMB3 million provisions are held against receivables from related parties.

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8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(6) Receivables from and payables to related parties (Continued)

Payables to related parties

	Related party	2020	2019
Non-current liabilities due within one year	Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	<u>7,600</u>	<u>–</u>
Long-term payables	Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	<u>8,600</u>	<u>–</u>

(7) Transactions/balances with other state owned enterprises in the PRC

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled by the PRC government (hereinafter collectively referred to as “state-owned entities”). The company is also a state-owned entity.

During the year, the Group’s significant transactions with these state controlled entities include treatment of sewage and construction and management of related facility, supply of tap water and recycled water, and supply of heating and cooling services. At the end of the year, the majority of the Group’s cash and cash equivalents and borrowings are with state controlled banks.

9 COMMITMENTS

(1) Capital commitments

The Group’s capital commitments at the balance sheet date are as follows:

	Contracted but not provided for		Authorised but not contracted for	
	31 December 2020 RMB million	31 December 2019 RMB million	31 December 2020 RMB million	31 December 2019 RMB million
Intangible assets – Concession right				
– Sewage processing project	469	1,312	220	908
– Tap water project	31	56	–	68
– Heating and cooling supply project	3	46	–	112
Property, plant and Equipment				
– Solid waste treatment project	<u>–</u>	<u>31</u>	<u>–</u>	<u>34</u>
	<u>503</u>	<u>1,445</u>	<u>220</u>	<u>1,122</u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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9 COMMITMENTS (Continued)

(2) Investment commitments

According to the announcement of the 43rd meeting of the 21st Board of Directors of the Company in January 2021, the Company plans to set up Honghu Tianchuang environmental protection Co., Ltd.. Honghu Tianchuang environmental protection Co., Ltd has a registered capital of RMB60 million yuan, in which the Company invested RMB53.40 million yuan, accounting for 89.00% of the shares.

10 IMPACT OF EVENTS AFTER THE BALANCE SHEET DATE

(1) Profit distribution

	Amount
Proposed dividend (a)	171,267
Dividends declared	152,713

(a) According to the resolution of the board of directors on 25 March 2021, the board of directors proposed that the Company distribute a dividend of RMB171 million to all shareholders, which was not recognized as a liability in this financial statement (note 4 (21) (c)).

(2) Acquisition of 100% equity interest in Gaoyou Compro Environmental Resources Co., Ltd. (“Gaoyo Compro”) and Jiangsu Yonghui Resources Utilization Co., Ltd. (“Jiangsu Yonghui”)

According to the approval of the meeting of Board of directors of the Group dated 24 December 2020, the Group proposed acquisition of 100% equity interest in Gaoyou Compro and Jiangsu Yonghui from their controlling shareholder, Bosideng Co., Ltd.. (collectively the “Target Companies”). The Target Companies are principally engaged in the provision of waste recycling and industrial solid waste incineration disposal services. The considerations for the aforesaid acquisitions are RMB383 million and RMB397 million respectively. The Group completed the payment of the consideration and industrial and commercial registration on 26 January 2021 (“the acquisition date”). As of the date of these consolidated financial statements, the Group is still assessing the fair value of the identifiable net assets of the Target Companies acquired on the acquisition date.

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10 IMPACT OF EVENTS AFTER THE BALANCE SHEET DATE (Continued)

(3) A Share Option Incentive Scheme

According to the approval of the meeting of Board of directors dated 27 November 2020, the Group is authorised to grant share options to certain directors and senior management. The number of share options proposed to be granted under the scheme is 14,270,000 and the corresponding number of underlying shares is 14,270,000 A shares, representing not more than 1.0% of the Company's total issued share capital; where 12,170,000 options was granted on 21 January 2021, representing approximately 0.85% of the total issued capital of the Company; and 2,100,000 options will be reserved, representing approximately 0.15% of the total issued capital of the Company. The current share options shall not be exercised before the expiration of 24 months from the date of grant. The participants shall exercise the options if exercise conditions and performance indicators assessment are fulfilled. The exercise price of the share option granted under the scheme is RMB6.98 per share.

The exercise arrangement is as follows:

Exercise period	Exercise time	Proportion of exercise
First Exercise Period	From the first trading day after 24 months has passed since the date of grant to the last trading day within 36 months from the date of grant	1/3
Second Exercise Period	From the first trading day after 36 months has passed since the date of grant to the last trading day within 48 months from the date of grant	1/3
Third Exercise Period	From the first trading day after 48 months has passed since the date of grant to the last trading day within 60 months from the date of grant	1/3

During the vesting period, based on the best estimation of the number of viable equity instruments, the services acquired in the current period shall be included into relevant costs or expenses according to the fair value of the grant date of the share option, and the capital reserves shall be increased accordingly. If subsequent information indicates that the number of vestable interest instruments is different from previously estimation, it will be adjusted to the actual number of vestable equity instruments on the vestable date. On the exercise date, the amount to be transferred into the share capital shall be calculated based on the number of equity instruments actually exercised and transferred to the share capital. As of the date of these consolidated financial statements, the fair value of share options at the date of grant is still under valuation to be conducted by an independent valuer.

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11 FINANCIAL INSTRUMENTS AND THEIR RISKS

The Group's activities expose it to a variety of financial risks: market risk (primarily including currency risk, interest rate risk and price risk), credit risk and liquidity risk. Those financial risks and the Group's overall risk management program which focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance are as below:

The board of directors is responsible for the planning and establishment of the risk management framework of the Group, the formulation of the risk management policies and related guidelines of the Group and the supervision of the implementation of risk management measures. The Group has developed risk management policies to identify and analyze the risks faced by the Group. These risk management policies have specified specific risks, covering many aspects such as market risk, credit risk and liquidity risk management etc. The Group regularly assesses the market environment and changes in the Group's business activities to determine whether the risk management policies and systems are updated. The risk management of the Group shall be conducted by the risk management committee in accordance with the policy approved by the board of directors. The risk management committee identifies and assesses and avoids risks through close cooperation with other business units of the Group. The internal audit department of the Group conducts regular audits on risk management control and procedures and reports the results to the audit committee of the Group.

(1) Market risk:

(a) Foreign exchange risk:

The Group has no significant foreign exchange risk as the operations and customers of the Group are located in the PRC with most of the operating assets and transactions denominated and settled in RMB. All of the Group's borrowings are denominated in RMB. The sole foreign exchange risk of the Group arises from fluctuation of USD and JPY pursuant to the long-term payment scheme set out in the asset transfer agreement of foreign loan financed assets from Sewage Company (Note 4(16)(c)(ii)).

As at 31 December 2020, if RMB had strengthened/weakened by 5% against the USD with all other variables held constant, post-tax profit for the year would have been RMB3 million (31 December 2019: RMB4 million) higher/lower. Similarly, if RMB had strengthened/weakened by 5% against the JPY with all other variables held constant, post-tax profit for the year would have been RMB8 million (31 December 2019: RMB9 million) higher/lower.

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11 FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)

(1) Market risk: (Continued)

(b) Interest rate risk:

The Group's interest rate risk arises mainly from interest-bearing liabilities including borrowings, long-term payables and debentures payable.

The Group has significant borrowings, long-term payables and debentures payable. Those taken at variable rates expose the Group to cash flow interest-rate risk, whilst those taken at fixed rates expose the Group to fair value interest-rate risk.

The Group's finance department at its headquarters continuously monitor the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial performance. The Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. During 2020 and 2019, the Group did not enter into any interest rate swap agreements.

The tables below set out the Group's and the Company's exposure to interest rate risks. Included in the tables are the liabilities at carrying amounts, categorized by the maturity dates.

	Fixed	Floating	Total
At 31 December 2020			
Non-current liabilities due within one year:			
Current portion of long-term borrowings	–	805,331	805,331
Current portion of long-term payables	15,756	19,350	35,106
Current portion of Debentures payable and interest	742,545	–	742,545
Long-term borrowings	–	4,227,894	4,227,894
Long-term payables	180,344	67,390	247,734
Debentures payable	1,098,848	–	1,098,848
	<u>2,037,493</u>	<u>5,119,965</u>	<u>7,157,458</u>
Total	<u>2,037,493</u>	<u>5,119,965</u>	<u>7,157,458</u>

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11 FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)

(1) Market risk: (Continued)

(b) Interest rate risk: (Continued)

	Fixed	Floating	Total
At 31 December 2019			
Short-term borrowings	200,000	–	200,000
Other current liabilities	20,250	–	20,250
Non-current liabilities due within one year:			
Current portion of long-term borrowings	–	811,380	811,380
Current portion of long-term payables	16,427	11,812	28,239
Long-term borrowings	–	3,006,756	3,006,756
Long-term payables	189,258	73,394	262,652
Debentures payable	1,797,389	–	1,797,389
	<u>2,223,324</u>	<u>3,903,342</u>	<u>6,126,666</u>
Total	<u>2,223,324</u>	<u>3,903,342</u>	<u>6,126,666</u>

As at 31 December 2020, if interest rates on bank borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been lower/higher by RMB41 million (2019: RMB31 million).

The Group analyses its interest rate exposure by considering refinancing, renewal of existing positions and alternative financing resolution.

(2) Credit risk:

Credit risk arises from cash at bank, notes receivable, trade receivables, other receivables and contract assets. As at 31 December 2020, the book value of the Group's financial assets represents its maximum credit exposure.

The Group manages credit risk on cash at bank by placing the majority of its cash at state owned/listed banks in the PRC. The Group has not had any significant loss arising from non-performance by these parties in the past and management does not expect so in the future.

In addition, the Group has policies to limit the credit exposure on notes receivable, trade receivables, other receivables and contract assets. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

As at 31 December 2020, the Group has no significant collateral or other credit enhancements held as a result of the debtor's mortgage (31 December 2019: Nil).

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11 FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)

(3) Liquidity risk:

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

The Group's financial liabilities are analyzed at the balance sheet date to the contractual maturity date, using the contracted undiscounted cash flows, as follows:

	31 December 2020				Total	Carrying amount
	Within 1 year	1-2 years	2-5 years	Over 5 years		
Long-term borrowings	1,008,415	816,994	1,873,550	2,664,569	6,363,528	5,033,225
Long-term payables	39,447	39,064	108,369	228,395	415,275	282,840
Trade payables	294,973	–	–	–	294,973	294,973
Other payables	955,773	–	–	–	955,773	955,773
Debentures payable	818,102	56,870	1,118,957	–	1,993,929	1,841,393
	<u>3,116,710</u>	<u>912,928</u>	<u>3,100,876</u>	<u>2,892,964</u>	<u>10,023,478</u>	<u>8,408,204</u>
	31 December 2019				Total	Carrying amount
	Within 1 year	1-2 years	2-5 years	Over 5 years		
Short-term borrowings	205,738	–	–	–	205,738	200,000
Other current liabilities	21,131	–	–	–	21,131	20,250
Long-term borrowings	970,469	808,529	1,250,571	1,726,434	4,756,003	3,818,136
Long-term payables	32,058	33,037	106,222	274,126	445,443	290,891
Trade payables	231,293	–	–	–	231,293	231,293
Other payables	1,534,014	–	–	–	1,534,014	1,534,014
Debentures payable	78,780	775,128	1,175,827	–	2,029,735	1,797,389
	<u>3,073,483</u>	<u>1,616,694</u>	<u>2,532,620</u>	<u>2,000,560</u>	<u>9,223,357</u>	<u>7,891,973</u>

12 FAIR VALUE ESTIMATION

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data.

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12 FAIR VALUE ESTIMATION (Continued)

(1) Assets measured at fair value on a recurring basis:

As at 31 December 2020 and 31 December 2019, the assets measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 3	Total
Other equity instruments investment – Unlisted equity instrument investments of Tianjin Beifang Rencaigang Co., Ltd	<u>2,000</u>	<u>2,000</u>
Total financial assets	<u>2,000</u>	<u>2,000</u>
Total assets	<u><u>2,000</u></u>	<u><u>2,000</u></u>

The fair value of financial instruments traded in an active market is determined at the quoted market price; and the fair value of those not traded in an active market is determined by the Group using valuation technique. The valuation models used mainly comprise discounted cash flow model and market comparable corporate model. The inputs of the valuation technique mainly include illiquidity discount.

Amounts of the Group's financial instruments not traded in an active market are of no significance.

(2) Assets and liabilities not measured at fair value but disclosed

Financial assets and liabilities of the Group measured at amortized cost mainly include notes receivable, trade receivables, other receivables, long-term receivables, payables, short-term borrowings, long-term borrowings, debenture payable and long-term payables.

The carrying amount of the financial assets and liabilities of the Group not measured at fair value is a reasonable approximation of their fair value.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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(All amounts in RMB yuan unless otherwise stated)

13 CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings, debentures payable, long-term payables and government loan of the Group) less cash. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The Group's strategy is to maintain a gearing ratio below 50%. The gearing ratio of the Group is as follows:

	31 December 2020	31 December 2019
Total borrowings	7,157,458	6,126,666
Short-term borrowings	–	200,000
Other current liabilities	–	20,250
Long-term borrowings	5,033,225	3,818,136
Debentures payable	1,841,393	1,797,389
Long-term payables	282,840	290,891
Less: Cash	<u>(1,652,657)</u>	<u>(2,066,301)</u>
Net debt	5,504,801	4,060,365
Total equity	<u>7,581,643</u>	<u>7,142,187</u>
Total capital	<u><u>13,086,444</u></u>	<u><u>11,202,552</u></u>
Gearing ratio	<u>42%</u>	<u>36%</u>

As at 31 December 2020, the gearing ratio of the Group is increased compared to last year, which was mainly due to the increase of borrowings for new and upgrading projects.

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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14 NOTES TO THE COMPANY FINANCIAL STATEMENTS

(1) Trade receivables

	31 December 2020	31 December 2019
Trade receivables	1,183,519	1,977,087
Less: Provision for bad debts	<u>(57,042)</u>	<u>(19,006)</u>
	<u>1,126,477</u>	<u>1,958,081</u>

(a) The ageing analysis of trade receivable is as follows:

	31 December 2020	31 December 2019
Within 1 year	1,119,758	1,370,989
1 to 2 years	25,758	576,139
2 to 3 years	13,471	25,132
3 to 4 years	21,969	3,620
4 to 5 years	1,357	-
Over 5 years	<u>1,206</u>	<u>1,207</u>
Total	<u>1,183,519</u>	<u>1,977,087</u>

(b) As at 31 December 2020, the trade receivables from the top five debtors in respect of outstanding balance are analyzed as below:

	Amount	Provision for bad debts	% of total balance
Trade receivables from the top five debtors	<u>1,135,497</u>	<u>(35,407)</u>	<u>96%</u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(1) Trade receivables (Continued)

(c) Provision for bad debts:

For the Company's trade receivables, regardless of whether there is a significant financing component, the Company measures the loss allowance according to the expected credit loss for the entire life.

(i) As at 31 December 2020, provision for bad debts by individual is analyzed as below:

	Carrying amount	ECL rate	Provision	Reasons
Tianjin Water Authority Bureau	1,012,083	0.05%	(554)	Note 4 (3)(c)(i)
Tianjin City Appearance Sanitation Construction Development Co. Ltd.	31,100	41.52%	(12,913)	Note 4 (3)(c)(i)
Tianjin Ziya Environmental Protection Industrial Park Co. Ltd.	16,797	100.00%	(16,797)	Note 4 (3)(c)(i)
Tianjin Shuangkou Municipal Solid Waste Landfill	13,776	100.00%	(13,776)	Note 4 (3)(c)(i)
Tianjin Tianbao Municipal Administration Co. Ltd.	3,612	100.00%	(3,612)	Note 4 (3)(c)(i)
Tianjin Water Recycling Co., Ltd.	3,510	0.05%	(2)	
Tianjin City Investment Urban Resources Management Co., Ltd.	1,200	100.00%	(1,200)	Note 4 (3)(c)(i)
Tianjin Ziya Circular Economy Industry Investment Development Co., Ltd.	1,020	100.00%	(1,020)	Note 4 (3)(c)(i)
Total	<u>1,083,098</u>		<u>(49,874)</u>	

Tianjin Water Recycling Co., Ltd. is a subsidiary of the Company and has good operating conditions. The credit risk of receivables from Tianjin Water Recycling Co., Ltd. is low and the Company estimates that the lifetime ECL rate is 0.05%.

(ii) As at 31 December 2020, provision for bad debts by individual is analyzed as below:

Group – Government clients except those in provincial capitals and municipalities

	31 December 2020			31 December 2019		
	Carrying amount Amount	Provision ECL rate	Amount	Carrying amount Amount	Provision ECL rate	Amount
Undue	7,762	0.05%	(4)	33,595	5.31%	(1,784)
1-180 days overdue	39,152	5.41%	(2,117)	16,645	5.31%	(884)
>180 days overdue	293	22.87%	(67)	10,475	5.68%	(595)
	<u>47,207</u>		<u>(2,188)</u>	<u>60,715</u>		<u>(3,263)</u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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For the year ended 31 December 2020
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14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(1) Trade receivables (Continued)

(c) Provision for bad debts: (Continued)

(ii) As at 31 December 2020, provision for bad debts by individual is analyzed as below (Continued):

Group – other clients

	31 December 2020			31 December 2019		
	Carrying amount Amount	Provision ECL rate	Amount	Carrying amount Amount	Provision ECL rate	Amount
Undue	5,333	6.85%	(365)	3,085	6.70%	(207)
1-90 days overdue	13,479	6.85%	(923)	5,986	6.70%	(401)
>90 days overdue	34,402	10.73%	(3,692)	19,467	12.40%	(2,414)
	<u>53,214</u>		<u>(4,980)</u>	<u>28,538</u>		<u>(3,022)</u>

The amount of provision for bad debts withdrawn in this year is about RMB40 million, of which the amount of provision for bad debts recovered is about RMB2 million and the related carrying amount of bad debt provision is about RMB57 million.

(2) Other receivables

	31 December 2020	31 December 2019
Receivables from subsidiaries	20,010	37,361
Project deposits	2,212	23,496
VAT refund receivable (note (e))	1,718	24,004
Dividends receivable from subsidiaries	–	1,820
Others	1,959	1,299
	<u>25,899</u>	<u>87,980</u>
Less: Provision for bad debts	(16)	(35)
	<u>25,883</u>	<u>87,945</u>

As at 31 December 2020, there were no other receivables overdue but unimpaired (31 December 2019: Nil).

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

(a) *The ageing analysis of other receivable is as follow:*

	31 December 2020	31 December 2019
Within 1 year	22,892	75,708
1 to 2 years	1,696	2,968
2 to 3 years	7	8,112
Over 3 years	<u>1,304</u>	<u>1,192</u>
 Total	 <u><u>25,899</u></u>	 <u><u>87,980</u></u>

(b) *As at 31 December 2020 and 2019, the Group has no other receivables belonging to stage 2 and stage 3. Provisions for bad debts of other receivables in stage 1 are analyzed as follows :*

	31 December 2020			31 December 2019		
	Carrying amount Amount	Provision Amount Percentage		Carrying amount Amount	Provision Amount Percentage	
Project Deposits Group:						
Within 1 year	286	–	0.05%	11,450	(6)	0.05%
1-2 years	800	–	0.05%	2,920	(2)	0.05%
2-3 years	–	–	0.05%	8,060	(4)	0.05%
Over 3 years	<u>1,126</u>	<u>(1)</u>	<u>0.05%</u>	<u>1,066</u>	<u>(1)</u>	<u>0.05%</u>
Subtotal	<u><u>2,212</u></u>	<u><u>(1)</u></u>		<u><u>23,496</u></u>	<u><u>(13)</u></u>	
Others :						
Within 1 year	20,888	(14)	0.05%	38,434	(22)	0.05%
1-2 years	896	(1)	0.10%	48	–	0.10%
2-3 years	7	–	0.10%	52	–	0.10%
Over 3 years	<u>178</u>	<u>–</u>	<u>0.10%</u>	<u>126</u>	<u>–</u>	<u>0.10%</u>
Subtotal	<u><u>21,969</u></u>	<u><u>(15)</u></u>		<u><u>38,660</u></u>	<u><u>(22)</u></u>	
Total	<u><u>24,181</u></u>	<u><u>(16)</u></u>		<u><u>62,156</u></u>	<u><u>(35)</u></u>	

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2020
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14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

(c) In 2020, the changes of other receivables' provision of the Company is not significant.

(d) As at 31 December 2020, other receivables from the top five debtors in respect of outstanding balance are analyzed as below:

	Nature	Balance	Aging	% of total balance	Provision for bad debts
Tianjin State Taxation Bureau	VAT refund receivable	1,718	Within 1 year	6.63%	–
State Grid Tianjin Electric Power Company	Project deposits	1,000	Above 3 years	3.86%	(1)
Huoqiu County Public Resources Trading Center	Project deposits	800	1 to 2 years	3.09%	–
Tianjin Chenjin Technology Consulting Co., Ltd	Project deposits	120	Within 1 year	0.46%	–
Linde Gas (Langfang) Co., Ltd	Rental of liquid chlorine tank	166	Within 1 year	0.64%	–
		<u>3,804</u>		<u>14.68%</u>	<u>(1)</u>

(e) As at 31 December 2020, government grants confirmed according to receivables are analyzed as below:

Name	Amount	Aging	Estimated time, amount and basis of collection
VAT refund	<u>1,718</u>	Within 1 year	It's expected to received fully in 2021 because the nature is VAT refund.

(3) Long-term equity investments

	31 December 2020	31 December 2019
Investment in subsidiaries (a)	4,181,549	4,012,806
Associate (b)	195,000	195,000
Less: Impairment of Long-term equity investments (c)	<u>(153,004)</u>	<u>(140,754)</u>
	<u>4,223,545</u>	<u>4,067,052</u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) Subsidiaries

	Investment cost	31 December 2019	Movement for the year			31 December 2020	Provision for impairment	Cash dividends declared/ Investment income in the current year
			Additions	Disposals	Provision			
Xi'an Capital Water Co., Ltd.	424,000	334,000	90,000	-	-	424,000	-	42,200
Hangzhou Tianchuang Capital Water Co., Ltd.	264,212	264,212	-	-	-	264,212	-	59,927
Qijing Capital Water Co., Ltd.	154,918	154,918	-	-	-	154,918	-	-
Guizhou Capital Water Co., Ltd.	114,000	114,000	-	-	-	114,000	-	6,650
Fuyang Capital Water Co., Ltd. (note(i))	390,111	390,111	-	-	-	390,111	-	58,000
Tianjin Water Recycling Co., Ltd.	100,436	100,436	-	-	-	100,436	-	143,200
Wuhan Tianchuang Capital Water Co., Ltd.	197,229	197,229	-	-	-	197,229	-	-
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	62,987	12,706	-	-	-	12,706	(50,281)	-
Wendeng Capital Water Co., Ltd.	61,400	61,400	-	-	-	61,400	-	7,000
Tianjin Jiayuan Xingchuang Energy Technology Co., Ltd.	191,600	191,600	-	-	-	191,600	-	10,000
Anguo Capital Water Co., Ltd.	41,000	-	-	-	-	-	(41,000)	-
Baoying Capital Water Co., Ltd.	58,100	58,100	-	-	-	58,100	-	1,820
Tianjin Capital New Materials Co., Ltd.	26,500	-	-	-	-	-	(26,500)	-
Tianjin Caring Technology Development Co., Ltd.	16,000	16,000	-	-	-	16,000	-	5,760
Subtotal	2,102,493	1,894,712	90,000	-	-	1,984,712	(117,781)	334,557

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) Subsidiaries (Continued)

	Investment cost	31 December 2018	Movement for the year			31 December 2019	Provision for impairment	Cash dividends declared/ Investment income in the current year
			Additions	Disposals	Provision			
Tianjin Jinning Capital Water Co., Ltd.	22,560	7,560	-	-	-	7,560	(15,000)	-
Tianjin Jing Hai Capital Water Co., Ltd.	37,553	29,580	-	-	(12,250)	17,330	(20,223)	-
Yingshang Capital Water Co., Ltd.	53,000	53,000	-	-	-	53,000	-	-
Shangdong Capital Environmental Protection Technology Development Co., Ltd.	105,600	105,600	-	-	-	105,600	-	-
Changsha Tianchuang Environmental Protection Co., Ltd. (note(i))	37,469	32,775	4,694	-	-	37,469	-	-
Karamay Tianchuang Capital Water Co., Ltd.	108,000	108,000	-	-	-	108,000	-	-
Anhui Tianchuang Capital Water Co., Ltd.	63,670	63,670	-	-	-	63,670	-	-
Linxia Capital Water Co., Ltd.	45,000	45,000	-	-	-	45,000	-	-
Dalian Oriental Chunliuhe Water Quality Purification Co., Ltd.	47,981	47,981	-	-	-	47,981	-	-
Changsha Tianchuang Capital Water Co., Ltd. (note(ii))	17,002	15,318	1,684	-	-	17,002	-	-
Inner Mongolia Bayannur Capital Water Co.Ltd.	776,957	776,957	-	-	-	776,957	-	-
Honghu Tianchuang Capital Water Co., Ltd.	111,631	111,631	-	-	-	111,631	-	-
Hefei Capital Water Co., Ltd.	205,957	205,957	-	-	-	205,957	-	-
Deqing Capital Water Co., Ltd.	54,000	54,000	-	-	-	54,000	-	-
Hebei Guojin Tianchuang Sewage Water Processing Co., Ltd.	128,323	128,323	-	-	-	128,323	-	-
Hanshou Tianchuang Capital Water Co., Ltd.	33,750	33,750	-	-	-	33,750	-	-
Jiuquan Capital Water Co., Ltd.	158,238	158,238	-	-	-	158,238	-	-
Huize Capital Water Co., Ltd. (note(iii))	32,660	-	32,660	-	-	32,660	-	-
Huoqiu Capital Water Co., Ltd. (note(iii))	37,155	-	37,155	-	-	37,155	-	-
Dongying Tianchi Environmental Protection Technology Consultant Co., Ltd. (note(iii))	2,550	-	2,550	-	-	2,550	-	-
Subtotal	2,079,056	1,977,340	78,743	-	(12,250)	2,043,833	(35,223)	-
Total	4,181,549	3,872,052	168,743	-	(12,250)	4,028,545	(153,004)	334,557

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14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) Subsidiaries (Continued)

- (i) In 2020, the Company increased capital of RMB4.7 million to its subsidiary Changsha Tianchuang Capital Environmental Protection Co., Ltd., to ensure the treatment effect and normal operation of the sewage treatment plant of the PPP project. It is used to add an emergency pool on the existing basis of the sewage treatment plant.
- (ii) In 2020, the Company increased capital of RMB1.68 million to Changsha Tianchuang Capital Water Co., Ltd. for the additional investment in the PPP project construction, due to the increasing work from the change of local land regulation and environmental protection requirements.
- (iii) In 2019, the Company contributed RMB33 million to set up Hebei Guojin Tianchuang Sewage Water Processing Co., Ltd. RMB34 million to set up Huize Capital Water Co., Ltd., RMB37 million to set up Huoqiu Capital Water Co., Ltd., and RMB3 million to set up Dongying Tianchi Environmental Protection Technology Consultant Co., Ltd.. The shareholding ratio is 79%, 90% and 51% respectively.

(b) Associate

In 2018, the consortium formed by Bishuiyuan Technology Co., Ltd., Jiu'an Investment Group Co., Ltd. and the Company won the bidding for the PPP project of sponge city construction in the Jiefang Nan road of Tianjin. After winning the bid, the parties jointly set up the project company Tianjin Bihai Sponge City Co., Ltd. The Company invested 195 million yuan, and the shareholding ratio is 30%. (Note 4(9)(a))

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14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(c) Provision for impairment of long-term equity investments

	31 December 2019	Additions	Disposals	31 December 2020
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	50,281	–	–	50,281
Anguo Capital Water Co., Ltd.	41,000	–	–	41,000
Tianjin Capital New Materials Co., Ltd.	26,500	–	–	26,500
Tianjin Jinning Capital Water Co., Ltd.	15,000	–	–	15,000
Tianjin Jing Hai Capital Water Co., Ltd (i)	7,973	12,250	–	20,223
	<u>140,754</u>	<u>12,250</u>	<u>–</u>	<u>153,004</u>

- (i) According to estimated future operating conditions, the Group has conducted an impairment assessment on the Long term equity investment of Tianjin Jinghai Capital Water Co., Ltd. and recognised impairment provision of approximately RMB12 million in 2020.

(4) Revenue and cost of sales

	2020		2019	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operations	1,320,960	799,368	1,172,834	733,854
Other operations	167,247	128,440	142,458	119,339
	<u>1,488,207</u>	<u>927,808</u>	<u>1,315,292</u>	<u>853,193</u>

(a) Revenue from principal operations and cost of sales

Analysis by the nature of services is as below:

	2020		2019	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Processing of sewage water	1,258,356	792,248	1,110,318	726,516
Road tolls	62,604	7,120	62,302	7,120
Others	–	–	214	218
	<u>1,320,960</u>	<u>799,368</u>	<u>1,172,834</u>	<u>733,854</u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(4) Revenue and cost of sales (Continued)

(b) Revenue from other operations and cost of sales

	2020		2019	
	Revenue from other operations	Cost of sales	Revenue from other operations	Cost of sales
Contract operation income	119,287	109,171	120,254	101,459
Technical service	35,422	3,751	7,816	2,923
Construction services	6,467	4,336	1,936	917
Rental (i)	3,131	9,592	12,452	14,040
Others	2,940	1,590	—	—
	<u>167,247</u>	<u>128,440</u>	<u>142,458</u>	<u>119,339</u>

(i) The company gets its rental income from renting its buildings and structures. As of 2020, there's no rental income recognized based on a certain portion of the lessee's sales revenue.

(c) The Company's operating income is analyzed as follows:

	2020							Total
	Processing of sewage water Tianjin	Road tolls	Contract operation income	Rental	Construction services	Technical service	Others	
Revenue	1,258,356	62,604	—	—	—	—	—	1,320,960
Of which: confirm at a point in time	—	—	—	—	—	—	—	—
Confirm over time	1,258,356	62,604	—	—	—	—	—	1,320,960
Other operating income	—	—	119,287	3,131	6,467	35,422	2,940	167,247
Of which: confirm at a point in time	—	—	—	—	—	—	—	—
Confirm over time	—	—	119,287	3,131	6,467	35,422	2,940	167,247
	<u>1,258,356</u>	<u>62,604</u>	<u>119,287</u>	<u>3,131</u>	<u>6,467</u>	<u>35,422</u>	<u>2,940</u>	<u>1,488,207</u>
	2019							Total
	Processing of sewage water Tianjin	Road tolls	Contract operation income	Rental	Construction services	Technical service	Others	
Revenue	1,110,318	62,302	—	—	—	—	214	1,172,834
Of which: confirm at a point in time	—	—	—	—	—	—	—	—
Confirm over time	1,110,318	62,302	—	—	—	—	214	1,172,834
Other operating income	—	—	120,254	12,452	1,936	7,816	—	142,458
Of which: confirm at a point in time	—	—	—	—	—	—	—	—
Confirm over time	—	—	120,254	12,452	1,936	7,816	—	142,458
	<u>1,110,318</u>	<u>62,302</u>	<u>120,254</u>	<u>12,452</u>	<u>1,936</u>	<u>7,816</u>	<u>214</u>	<u>1,315,292</u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2020
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14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(4) Revenue and cost of sales (Continued)

(c) *The Company's operating income is analyzed as follows:* (Continued)

As at 31 December 2020, service bills of the Company's sewage water processing service are regularly issued to customers, based on contract agreed price and actual sewage water treatment capacity. And the amount of bills represent the entity's progress toward complete satisfaction of the performance obligation to transfer each distinct good or service in the series to customers. And there is no consideration amount which is not included in the transaction price, thus it's not included in the required information to be disclosed for the transaction price allocated to the remaining performance obligation.

As at 31 December 2020, the consideration for contract operation services of RMB91 million (31 December 2019: RMB37 million) of which the contracts were signed but the performance obligations is not yet fully completed. Among them, the company expects that about RMB90 million and about RMB1 million will be recognized in 2021 and 2022 respectively; the consideration for agent construction service of RMB6 million (31 December 2019: RMB13 million) of which the contracts were signed but the performance obligations is not yet fully completed. Among them, the company expects to recognize revenue of RMB6 million in 2021; a contract of road tolls service fee of RMB509 million (31 December 2019: RMB571 million) was signed but the performance obligations is not yet fully completed, among which the Group expects to recognise RMB62 million as revenue in every year from 2021 to 2028, and RMB13 million as revenue in 2029.

(5) Investment income

	2020	2019
Dividend income from other equity instruments investment	334,557	184,590
Interest income from entrusted loans	21,946	34,807
	<u>356,503</u>	<u>219,397</u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Supplement of the Financial Statements

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(All amounts in RMB yuan unless otherwise stated)

1 STATEMENT OF NON-RECURRING PROFIT OR LOSS

	2020	2019
Government Grants	96,577	108,103
Gains on disposal of other non-current assets	–	48,703
Losses on disposal of fixed assets	(46)	(590)
Net gains/(losses) on disposal of fixed assets	67	1,294
Other non-operating income and expenses – net	(4,702)	(1,520)
Reversal of provision for trade receivables bad debts by individual	437	–
	92,333	155,990
Effect of income tax	(15,506)	(31,496)
Effect of minority interests (after tax)	52	(1,839)
	76,879	122,655
Total	76,879	122,655

Basis for preparation of statement of non-recurring profit or loss

Under the requirements in Explanatory Announcement No. 1 on Information Disclosure by Companies Offering Securities to the Public – Non-recurring Profit or Loss [2008] from China Security Regulatory Commission (“CSRC”), non-recurring profit or loss refers to those arises from transactions and events that are not directly relevant to ordinary activities, or that are relevant to ordinary activities, but are extraordinary and not expected to recur frequently that would have an influence on users of financial statements making economic decisions on the financial performance and profitability of an enterprise.

2 RECONCILIATION STATEMENT OF INLAND AND ABROAD FINANCIAL STATEMENT

There is no difference on inland and abroad financial statement of the Group.

3 RATE OF RETURN ON NET ASSETS AND EARNINGS PER SHARE

	Weighted average income rate of net assets (%)		Basic/Diluted earnings per share	
	For the year ended 31 December 2020	For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ended 31 December 2019
Net profit attributable to ordinary shareholders of the Company	8.95	8.48	0.40	0.36
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	7.74	6.43	0.35	0.27

13. Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Tianjin Capital Environmental Protection Group Company Limited

(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Tianjin Capital Environmental Protection Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 242 to 339, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is the assessment of expected credit losses for trade receivables.

Key Audit Matter

How our audit addressed the Key Audit Matter

Assessment of expected credit losses for trade receivables

Refer to Notes 3.1(b)(ii), 19 and 22 to the consolidated financial statements

As at 31 December 2020, the Group’s gross trade receivables amounted to approximately RMB3,559,373,000 (including the portion of the trade receivables due from a government authority of approximately RMB1,431,761,000 as included in the Group’s long-term receivables (Note 19(a))), represented approximately 19% of the total assets of the Group, and a loss allowance of RMB169,312,000 (including a loss allowance of approximately RMB783,000 as included in the Group’s long-term receivables) was recognised on these trade receivables.

The balance of loss allowance for trade receivables represent the management’s best estimates on the expected credit losses (“ECL”) for these trade receivables as of the balance sheet date.

Management assessed the lifetime ECL of the trade receivables using simplified approach. Trade receivables have been grouped based on shared credit risk characteristics and ageing analysis to measure the expected credit losses. Significant management judgement is applied in determining the calculation model and selecting the inputs to calculate the expected credit loss rate, based on the Group’s historical aging profile of receivables, existing market conditions and economic indicators for forward-looking adjustments at the end of each reporting period.

We performed the following procedures to address the key audit matter:

- Obtained an understanding of the key management’s internal control and process for the assessment of ECL for trade receivables and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud.
- Evaluated the outcome of prior period assessment of ECL for trade receivables to assess the effectiveness of management’s estimation process.
- Evaluated the appropriateness of the methodology and model as adopted by management for the calculation of credit loss allowance by considering the nature and characteristics of trade debtors;
- Assessed the reasonableness of management’s assessment of ECL by considering the reasonableness of grouping category of trade debtors, checking the accuracy of the aging analysis of trade receivables to invoices and related supporting documentation on a sample basis, and comparing the estimated default rate to existing market data.

13. Independent Auditor's Report

KEY AUDIT MATTERS (Continued)

Key Audit Matter (Continued)

How our audit addressed the Key Audit Matter (Continued)

Assessment of expected credit losses for trade receivables (Continued)

We focus on this area because of the magnitude of the balance of trade receivables and the assessment of expected credit losses for trade receivables is subject to high degree of estimation uncertainty. The inherent risk in relation to the assessment of expected credit losses for trade receivables is considered significant due to the subjectivity of significant assumptions and estimates used.

- Evaluated the reasonableness of the economic growth data as selected by management for the forward-looking adjustments on the applied ECL rates by comparing with those as obtained from our research on the macroeconomic data as published in China.
- Checked the mathematical accuracy of the calculation of the provision for loss allowance.

Based on the above, we considered that the significant management's judgements and estimates applied in the assessment of expected credit losses for trade receivables were supportable by the evidence obtained and procedures performed.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee of the Company is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

13. Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee of the Company with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the audit committee of the Company, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chong Heng Hon.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 25 March 2021

14. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

	Notes	2020 RMB' 000	2019 RMB' 000
Revenue from contracts with customers	5	3,363,874	2,851,453
Cost of sales	7	(2,233,128)	(1,984,537)
Tax expenses and surcharge		(48,769)	(45,716)
Gross profit		1,081,977	821,200
Distribution costs	7	(15,879)	(7,075)
Administrative expenses	7	(178,078)	(168,661)
Net impairment losses on financial assets	3.1(b)	(88,332)	(31,383)
Other income	6	162,410	166,989
Other – (losses)/gains – net	10	(4,814)	47,875
Operating profit		957,284	828,945
Finance income		23,035	23,951
Finance costs		(262,135)	(223,347)
Finance costs – net	9	(239,100)	(199,396)
Profit before income tax		718,184	629,549
Income tax expense	12	(112,046)	(100,587)
Profit for the year		606,138	528,962
Other comprehensive income for the year, net of tax		–	–
Total comprehensive income for the year		606,138	528,962
Profit and total comprehensive income for the year is attributable to:			
Owners of the Company		570,039	507,107
Non-controlling interests		36,099	21,855
		606,138	528,962
Earnings per share for profit attributable to the owners of the Company (in RMB Yuan):			
Basic earnings per share	11	0.40	0.36
Diluted earnings per share	11	0.40	0.36

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards Consolidated Balance Sheet

As at 31 December 2020

(All amounts in RMB yuan unless otherwise stated)

	Notes	2020 RMB' 000	2019 RMB' 000
ASSETS			
Non-current assets			
Right-of-use assets	14	77,607	58,080
Property, plant and equipment	15	819,354	801,007
Intangible assets	16	11,922,211	11,701,362
Deferred income tax assets	31	12,965	4,209
Investments accounted for using the equity method	17b	195,000	195,000
Financial asset at fair value through other comprehensive income	18	2,000	2,000
Long-term receivables	19	1,647,402	236,450
Other non-current assets	20	330,971	195,919
		<hr/>	<hr/>
Total non-current assets		15,007,510	13,194,027
Current assets			
Inventories	21	17,460	14,805
Trade receivables	22	1,961,739	2,508,895
Prepayments		26,220	38,583
Other receivables	23	24,117	65,156
Other current assets	20	102,277	89,728
Restricted cash	24	10,989	13,312
Cash and cash equivalents	24	1,652,657	2,066,301
		<hr/>	<hr/>
Total current assets		3,795,459	4,796,780
		<hr/>	<hr/>
Total assets		18,802,969	17,990,807

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards Consolidated Balance Sheet

As at 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

	Notes	2020 RMB' 000	2019 RMB' 000
LIABILITIES			
Non-current liabilities			
Borrowings	28	5,574,476	5,066,797
Deferred revenue	30	1,981,434	2,059,702
Deferred income tax liabilities	31	100,799	125,587
Provisions for other liabilities and charges	32	13,737	11,665
Other non-current liabilities	29	34,000	36,000
		<hr/>	<hr/>
Total non-current liabilities		7,704,446	7,299,751
Current liabilities			
Trade payables	33(a)	294,973	231,293
Contract liabilities	5(c)	527,410	558,472
Salaries and wages payables		85,620	66,100
Income tax and other taxes payables	33(c)	56,841	86,188
Dividend payable		142	1,172
Other payables	33(b)	955,631	1,532,842
Borrowings	28	1,582,982	1,059,869
Provisions for other liabilities and charges	32	13,281	12,933
		<hr/>	<hr/>
Total current liabilities		3,516,880	3,548,869
Total liabilities		<hr/> 11,221,326	<hr/> 10,848,620
Net assets		<hr/> 7,581,643	<hr/> 7,142,187
EQUITY			
Share capital	25	1,427,228	1,427,228
Other reserves	26	1,050,078	989,274
Retained earnings	27	4,114,045	3,757,523
		<hr/>	<hr/>
Equity attributable to owners of the Company		6,591,351	6,174,025
Non-controlling interests		990,292	968,162
		<hr/>	<hr/>
Total equity		<hr/> 7,581,643	<hr/> 7,142,187

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 242 to 339 were approved by the Board of Directors on 25 March 2021 and were signed on its behalf.

Liu Yujun
Chairman

Niu Bo
Director

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards Consolidated Statement of Changes in Equity

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

	Attributable to owners of the Company				Non- controlling interests RMB' 000	Total Equity RMB' 000
	Share capital RMB' 000	Other reserves RMB' 000	Retained earnings RMB' 000	Total RMB' 000		
Balance at 1 January 2019	1,427,228	948,131	3,442,844	5,818,203	796,764	6,614,967
Comprehensive income						
Profit for the year	–	–	507,107	507,107	21,855	528,962
Transactions with owners in their capacity as owners						
– Capital contribution from non-controlling interests	–	–	–	–	150,715	150,715
– Profit appropriation to statutory reserves	–	41,143	(41,143)	–	–	–
– Dividends declared	–	–	(151,285)	(151,285)	(1,172)	(152,457)
	–	41,143	314,679	355,822	171,398	527,220
Balance at 31 December 2019	<u>1,427,228</u>	<u>989,274</u>	<u>3,757,523</u>	<u>6,174,025</u>	<u>968,162</u>	<u>7,142,187</u>
Balance at 1 January 2020	<u>1,427,228</u>	<u>989,274</u>	<u>3,757,523</u>	<u>6,174,025</u>	<u>968,162</u>	<u>7,142,187</u>
Comprehensive income						
Profit for the year	–	–	570,039	570,039	36,099	606,138
Transactions with owners in their capacity as owners						
– Capital contribution from non-controlling interests	–	–	–	–	18,306	18,306
– Profit appropriation to statutory reserves	–	60,804	(60,804)	–	–	–
– Dividends declared	–	–	(152,713)	(152,713)	(32,275)	(184,988)
	–	60,804	356,522	417,326	22,130	439,456
Balance at 31 December 2020	<u>1,427,228</u>	<u>1,050,078</u>	<u>4,114,045</u>	<u>6,591,351</u>	<u>990,292</u>	<u>7,581,643</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards

Consolidated Statement of Cash Flows

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

	Note	2020 RMB' 000	2019 RMB' 000
Cash flows from operating activities			
Cash generated from operations	34(a)	671,640	934,737
Income taxes paid		(162,065)	(109,998)
Bank deposit interest received		14,404	14,547
Net cash inflow from operating activities		523,979	839,286
Cash flows from investing activities			
Payments for property, plant and equipment, and intangible assets		(1,543,318)	(2,058,617)
Proceeds from sale of property, plant and equipment and other current assets	34(c)	623	55,136
Receipts of restricted cash		6,237	19,791
Payment for restricted cash		(3,914)	(15,445)
Government grants received		8,457	45,647
Net cash outflow from investing activities		(1,531,915)	(1,953,488)
Cash flows from financing activities			
Proceeds from borrowings		2,700,168	2,403,553
Repayments of borrowings		(1,689,129)	(831,072)
Dividends paid to Company's shareholders		(152,571)	(153,197)
Dividends paid to non-controlling interests		(33,447)	–
Interest paid		(249,035)	(198,039)
Capital contributions by non-controlling interests		18,306	150,715
Net cash inflow from financing activities		594,292	1,371,960
Net (decrease)/increase cash and cash equivalents		(413,644)	257,758
Cash and cash equivalents at beginning of the year		2,066,301	1,808,543
Cash and cash equivalents at end of the year	24	1,652,657	2,066,301

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

1 GENERAL INFORMATION

Tianjin Capital Environmental Protection Group Company Limited (the “Company”) was established on 8 June 1993 in Tianjin, the People’s Republic of China (the “PRC”) as a joint stock limited liability Company. The immediate holding company and the ultimate holding company of the Company are Tianjin Municipal Investment Co., Ltd. (“Municipal Investment”) and Tianjin City Infrastructure Construction and Investment Group Co., Ltd. (“City Infrastructure Construction and Investment”) respectively. The address of the Company’s registered office is 12/F, TCEP building, 76 Weijin South Road, Nankai District, Tianjin. The Company’s H-shares are listed on The Stock Exchange of Hong Kong Limited and the Company’s A-shares are listed on The Shanghai Stock Exchange. These consolidated financial statements are presented in Renminbi Yuan (‘RMB’), unless otherwise stated.

The principal activities of the Company and its subsidiaries (collectively the “Group”) include processing of sewage water, supply of tap water and recycled water, supply of heating and cooling and provision of waste treatment and disposal service as described below:

(a) Processing of sewage water

Pursuant to relevant agreements (“Service concession right agreements”), the Group currently provides sewage water processing services via the following plants:

Plant	Location	Agreement date	Customer
Guiyang	Guizhou	16 September 2004	Guiyang City Administration Bureau
Baoying	Jiangsu	13 June 2005	Baoying Construction Bureau
Chibi	Hubei	15 July 2005	Chibi Construction Bureau
Fuyang	Anhui	18 December 2005	Anhui Fuyang Construction Committee
Qujing	Yunnan	25 December 2005	QuJing Construction Bureau (Renamed as “QuJing Housing and Urban Construction Bureau”)
Honghu	Hubei	29 December 2005	Honghu Construction Bureau
Hangzhou	Zhejiang	20 November 2006	Hangzhou Municipal Facilities Development Center (Changed to Hangzhou City Water Facilities and River Protection Management Center)
Jinghai	Tianjin	12 September 2007	Tianjin Tianyu Science Technology Park
Wendeng	Shandong	19 December 2007	Wendeng Construction Bureau
Xi’an	Shaanxi	18 March 2008	Xi’an Infrastructure Investment Group
Xianning	Hubei	16 October 2008	Xianning Construction Committee
Yingdong	Anhui	10 August 2009	Fuyang Yingdong Construction Bureau
Ninghe	Tianjin	21 September 2010	Management Committee of Modern Industrial Zone of Ninghe
Qujing	Yunnan	16 August 2011	QuJing Housing and Urban Construction Bureau
Chaohu	Anhui	25 August 2011	Hanshan Housing and Urban Construction Bureau
Jingu	Tianjin	18 February 2014	Tianjin Urban-rural Construction Commission (“TUCC”) and Tianjin Water Authority Bureau (“TWAB”)
Xianyanglu	Tianjin	18 February 2014	TUCC and TWAB
Dongjiao	Tianjin	18 February 2014	TUCC and TWAB
Beicang	Tianjin	18 February 2014	TUCC and TWAB
Yingshang	Anhui	16 June 2016	Yingshang Housing and Urban Construction Bureau
Karamay	Xinjiang	4 November 2016	Karamay Construction Bureau
Linxia	Gansu	13 May 2017	Linxia Housing and Urban Construction Bureau
Changsha	Hunan	5 June 2017	Ningxiang Economic & Technology Development zone Management Committee
Hefei	Anhui	16 June 2017	Hefei Urban Construction Committee

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

1 GENERAL INFORMATION (Continued)

(a) Processing of sewage water (Continued)

Plant	Location	Agreement date	Customer
Dalian	Liaoning	1 November 2017	Dalian Construction Bureau
Bayannur	Inner Mongolia	12 December 2017	Bayannur Water Authority Bureau and Bayannur River Water Group Co., Ltd.
Changsha	Hunan	27 April 2018	Ningxiang Economic and Technological Development Zone Management Committee
Honghu	Hubei	9 June 2018	Honghu Housing and Urban Construction Bureau
Shibing	Guizhou	12 July 2018	Shibing Water Authority Bureau
Hefei	Anhui	28 November 2018	Hefei Urban-rural Construction Commission
Deqing	Zhejiang	1 January 2019	Deqing Qianyuan Municipal Government
Jieshou	Anhui	2 March 2019	Jieshou Urban and Rural Construction Committee
Gaocheng	Hebei	2 April 2019	Hebei Gaocheng Economic Development Zone Management Committee
Jiuquan	Gansu	22 June 2019	Jiuquan Suzhou Municipal Government
Yingdong	Fuyang	26 August 2019	Fuyang Urban-rural Construction Commission
Huoqiu	Anhui	2 January 2020	Huoqiu Urban-rural Construction Commission
Huize	Yunnan	24 February 2020	Huize Urban-rural Construction Commission

Based on the sewage water processing agreements and the supplemental agreements, initial prices for sewage water processing are predetermined, thereafter processing prices may be revised taking into account various factors including renovation of equipment, additional investment, power and energy and labour force, and significant changes in government policy.

(b) Supply of tap water

Pursuant to the relevant agreements, the Group provides tap water supply service initially at pre-determined price and the prices as pre-determined may be revised subsequently taking into account various cost factors.

(c) Recycled water supply and pipeline connection

The Group's recycled water business includes developing, constructing and operating of recycled water projects, production, and supply of recycled water, and provision of related research and development and technical consultation services.

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

1 GENERAL INFORMATION (Continued)

(d) Heating and cooling supply services

The heating and cooling supply services include design, construction, operations and transfer of centralised heating and cooling infrastructures; and provision of heating and cooling supply services.

The Group has signed several service concession agreements with several customers of providing heating and cooling supply services to third parties.

(e) Waste treatment and disposal service

The Group's waste treatment and disposal service includes hazardous wastes and general solid waste. Currently, the Group conducts the disposal by way of incineration, landfill, and physicochemical treatment and solidify.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

(a) Compliance with HKFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and disclosure requirements of the Hong Kong Companies Ordinance ("HKCO") Cap.622.

(b) Historical cost convention

The financial statements have been prepared on the historical cost basis except for some financial assets at fair value through other comprehensive income which are measured at fair value.

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards Notes to the Consolidated Financial Statements

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(c) *New and amended standards adopted by the Group*

The Group has applied the following amended standards and revised conceptual framework for the first time for their annual reporting period commencing 1 January 2020:

- Definition of Material – amendments to HKAS 1 and HKAS 8
- Definition of a Business – amendments to HKFRS 3
- Interest Rate Benchmark Reform – amendments to HKFRS 9, HKAS 39 and HKFRS 7
- Revised Conceptual Framework for Financial Reporting

The Group also elected to adopt the following amended standard and annual improvements early.

- Annual Improvements to HKFRS Standards 2018-2020 Cycle.

The adoption of the abovementioned amended standards, revised conceptual framework and annual improvements did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(d) *New standards and interpretations not yet adopted*

Certain other new accounting standards and interpretations have also been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These amended standards and interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation and equity accounting

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.3).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and balance sheet respectively.

(b) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

(c) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

(c) *Equity method* (Continued)

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in associates. Unrealised losses are also eliminated unless the transaction provides the evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.9.

(d) *Changes in ownership interests*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRS.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Business combinations (Continued)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The Board of Director of the Company has appointed a strategic steering committee which assesses the financial performance and position of the Group, and makes strategic decisions. The steering committee, which has been identified as being the chief operating decision maker, consists of the chief executive officer, the chief financial officer and the manager for corporate planning.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in RMB, which is the Company's functional and Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of profit or loss and other comprehensive income, within finance costs.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation (Continued)

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each consolidated statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment

Property, plant and equipment comprise buildings and constructions, machinery and equipment, motor vehicles and others.

All property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

	Estimated useful lives	Estimated rate of residual value	Annual rate of depreciation
Buildings and constructions	10-50 years	0%-5%	1.9%-10%
Machinery and equipment	10-20 years	0%-5%	4.8%-10%
Motor vehicles and others	5-10 years	0%-5%	9.5%-20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the consolidated statement of profit or loss and other comprehensive income.

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment (Continued)

Construction-in-progress ("CIP") is measured at actual cost. Actual cost comprises construction costs, installation costs, other costs necessary to bring the property, plant and equipment ready for their intended use and borrowing costs that are eligible for capitalisation. Depreciation begins from the month when the assets are ready for their intended use. When the recoverable amount of CIP is lower than its carrying value, the carrying value shall be reduced to its recoverable amount.

One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets. The cost of such property, plant and equipment received is measured at carrying amount of the asset given up if the exchange transaction lacks commercial substance.

An exchange transaction has commercial substance if:

- (a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or
- (b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
- (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

2.8 Intangible assets

(a) *Service concession rights*

As described in Note 1(a), (b) and (d), the Group contracts with government bodies and their subordinate enterprises and participates in the development, financing, operation and maintenance of infrastructure for public services ("Concession Services") over a specified period of time ("Concession services period"). The Group has access to operate the infrastructures to provide the Concession Services in accordance with the terms specified in the arrangements.

The arrangements are governed by the relevant concession services agreements which set out performance standards and mechanisms for adjusting prices.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Intangible assets (Continued)

(a) Service concession rights (Continued)

The concession services arrangement is within the scope of HK (IFRIC) – Interpretation 12, and the Group recognises the related rights in the services concession arrangements as intangible assets or financial assets. The operator shall recognise an intangible asset to the extent that it receives a right (license) to charge users of the public service and shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial assets from the grantor. Concession right as intangible assets is recognised for the right under these service concession arrangements by the Group, which are amortised on a straight-line basis over the terms of operation ranging from 20 to 30 years.

One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an intangible asset is measured at carrying amount of the assets given up if the exchange transaction lacks commercial substance. The acquired asset is measured in this way even if an entity cannot immediately derecognise the asset given up.

An exchange transaction has commercial substance if:

- (a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or
- (b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
- (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

(b) Technical know-how and software

Separately acquired technical know-how and software is recognised at historical cost. Technical know-how and software has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technical know-how and software over their estimated useful lives of 5 to 10 years.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.10 Investments and other financial assets

2.10.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Investments and other financial assets (Continued)

2.10.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.10.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

(a) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in 'other (losses)/gains-net' together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Investments and other financial assets (Continued)

2.10.3 Measurement (Continued)

(a) Debt instruments (Continued)

- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'other (losses)/gains-net'. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in 'other (losses)/gains-net' and impairment expenses are presented as separate line item in the consolidated statement of profit or loss and other comprehensive income.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within 'other (losses)/gains-net' in the period in which it arises.

(b) Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in 'other (losses)/gains-net' in the consolidated statement of profit or loss and other comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Investments and other financial assets (Continued)

2.10.4 Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(b) for further details.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.12 Inventories

Inventories include raw materials, finished goods, spare parts and low value consumables, and are stated at the lower of cost and net realisable value.

Costs of raw materials, finished goods, spare parts and low value consumables are determined using the weighted-average method. The cost of finished goods comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Provision for decline in the value of inventories is determined at the excess amount of the carrying value of the inventories over their net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within one year and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 22 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

2.14 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.15 Share capital

Ordinary shares are classified as equity (Note 25). Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within one year from date of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.18 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred income tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Current and deferred income tax (Continued)

(b) *Deferred income tax* (Continued)

Deferred income tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets and liabilities and when the deferred income tax balances relate to the same taxation authority income. Current income tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.20 Employee benefits

(a) *Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards Notes to the Consolidated Financial Statements

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Employee benefits (Continued)

(b) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.21 Provisions

Provisions for legal claims and other obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Revenue recognition

(a) *Sewage water processing and heating and cooling supply services*

Revenues from sewage water processing and heating and cooling supply services are recognised when services are rendered.

A receivable is recognised when the services are provided that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) *Sales of customised environmental protection equipment*

The Group provides customised services for environmental protection and other deodorant equipment. The environmental protection equipment customised by the Group is mainly the scientific research and transformation results of environmental protection patent technology. Revenue from sales of customised environmental protection equipment is recognised by reference to the percentage of completion of the contract activity at the balance sheet date. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs of each contract.

(c) *Supply of tap water and recycled water*

Revenue from the supply of tap water and recycled water is recognised when the tap water and recycled water are delivered to customers.

A receivable is recognised when the consideration is unconditional because only the passage of time is required before the payment is due.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Revenue recognition (Continued)

(d) *Pipeline connection service for recycled water*

Revenue from pipeline connection service for recycled water is recognised by reference to the percentage of completion of the contract activity at the balance sheet date. The stage of completion is measured by reference to the actual outcomes achieved up to the end of the reporting period as a percentage of total contract quantity.

The Group received the consideration in advance and recognised contract liabilities for the performance obligation not fully completed.

(e) *Waste treatment and disposal service*

Revenue from waste treatment and disposal service is recognised when the services actually provided. The entire waste process normally lasts 30 to 120 minutes, and the disposal time for landfill treatment is less than one week. The Group recognised the revenue according to the amount of waste disposal confirmed by both parties and the unit price agreed in the contract.

(f) *Contract operation income*

Revenue from contract operation income is recognised by the service contract which include the fix amount contract and the unit price contract. The fixed amount contract is recognised on average during the service period. The unit price contract is recognised on service quantity provided during the service delivery period.

A receivable is recognised when the services are provided that the consideration is unconditional because only the passage of time is required before the payment is due.

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(All amounts in RMB yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Revenue recognition (Continued)

(g) *Technical services income*

Revenue from technical service shall be recognised within the period of service delivery as agreed in the contract according to the unit price of the service and the quantity of the service actually provided.

A receivable is recognised when the consideration is unconditional because only the passage of time is required before the payment is due.

(h) *Financing components*

For contract where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year, the promised amount of consideration is adjusted for the effects of a significant financing components.

2.23 Earnings per share

(a) *Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Earnings per share (Continued)

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.24 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. The Group obtained land-use-right from government with one-off payment.

Land-use-right assets are initially measured at cost.

Land-use-right assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

2.25 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

For the year ended 31 December 2020
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Government grants

Government grants refer to the monetary or non-monetary assets obtained by the Group from the government, including tax return, financial subsidy and etc.

Government grants are recognised when the grants can be received and the Group can comply with all attached conditions. If a government grant is a monetary asset, it will be measured at the amount received or receivable. If a government grant is a non-monetary asset, it will be measured at its fair value. If it is unable to obtain its fair value reliably, it will be measured at its nominal amount.

Government grants related to assets refer to government grants which are obtained by the Group for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

Government grants related to assets are recorded as deferred income and recognised in profit or loss on a systemic basis over the useful lives of the assets. Government grants related to income that compensate the future costs, expenses or losses are recorded as deferred income and recognised in profit or loss in reporting the related expenses; government grants related to income that compensate the incurred costs, expenses or losses are recognised in profit or loss, directly in current period. The Group applies the presentation method consistently to the similar government grants in the financial statements.

Government grants that are related to ordinary activities are included in 'Other income'.

2.27 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated statement of profit or loss and other comprehensive income as part of finance income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

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3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of market risks (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance.

(a) *Market risk*

(i) Foreign currency risk

The Group has no significant foreign currency risk as the operations and customers of the Group are located in the PRC with most of the operating assets and transactions denominated and settled in RMB. All of the Group's bank borrowings are denominated in RMB. The sole foreign currency exposure of the Group arises from fluctuation of US dollar ('USD') and Japanese Yen ('JPY') pursuant to the long-term payment scheme set out in the asset transfer agreement of foreign loan financed assets from Tianjin Sewage Company ('Sewage Company') (Note 28(c)).

As at 31 December 2020, if RMB had strengthened/weakened by 5% against the US dollar with all other variables held constant, post-tax profit for the year would have been approximately RMB3 million (2019: RMB4 million) higher/lower. Similarly, if RMB had strengthened/weakened by 5% against the JPY with all other variables held constant, post-tax profit for the year would have been approximately RMB8 million (2019: RMB9 million) higher/lower.

The aggregate net foreign exchange gains recognised in profit or loss were:

	2020 RMB' 000	2019 RMB' 000
Exchange (gains)/losses on foreign currency borrowing included in finance costs and profit before income tax	<u>(10,490)</u>	<u>8,813</u>

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards Notes to the Consolidated Financial Statements

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk

The Group's interest rate risk arises mainly from borrowings and long-term payables.

Borrowings and long-term payables obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk.

The tables below set out the Group's exposure to interest rate risks associated with interest-bearing liabilities. Included in the tables are the liabilities at carrying amounts, categorised by the maturity dates.

	Fixed interest rate RMB' 000	Floating interest rate RMB' 000	Total RMB' 000
At 31 December 2020			
Non-current liabilities due within one year:			
– Current portion of long-term bank borrowings	–	805,331	805,331
– Current portion of long-term payables	15,756	19,350	35,106
– Current portion of debentures	742,545	–	742,545
Long-term borrowings (non-current portion)	–	4,227,894	4,227,894
Long-term payables (non-current portion)	180,344	67,390	247,734
Debentures (non-current portion)	1,098,848	–	1,098,848
Total	2,037,493	5,119,965	7,157,458
At 31 December 2019			
Short-term borrowings	200,000	–	200,000
Other current liabilities	20,250	–	20,250
Non-current liabilities due within one year:			
– Current portion of long-term bank borrowings	–	811,380	811,380
– Current portion of long-term payables	16,427	11,812	28,239
Long-term borrowings (non-current portion)	–	3,006,756	3,006,756
Long-term payables (non-current portion)	189,258	73,394	262,652
Debentures (non-current portion)	1,797,389	–	1,797,389
Total	2,223,324	3,903,342	6,126,666

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards

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For the year ended 31 December 2020
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3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk (Continued)

As at 31 December 2020, if interest rates on bank borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been lower/higher by approximately RMB41 million (2019: RMB31 million).

The Group analyses its interest rate exposure monthly by considering refinancing, renewal of existing positions and alternative financing.

The exposure of the Group's borrowings to interest rate changes and the contractual re-pricing dates of the borrowings at the end of the reporting period are as follows:

	2020 RMB' 000	% of total borrowings	2019 RMB' 000	% of total borrowings
Borrowings – repricing dates:				
6 months or less	–	–	–	–
6 – 12 months	5,119,965	100	3,903,342	100
	<u>5,119,965</u>	<u>100</u>	<u>3,903,342</u>	<u>100</u>

(b) Credit risk

Credit risk mainly arises from cash and cash equivalents, contractual cash flows of debt instruments carried at amortised cost as well as credit exposures to customers, including outstanding receivables.

(i) Risk management

The Group manages credit risk on bank deposits by placing the majority of its cash and cash equivalents with state owned/listed banks in the PRC. The Group does not have any significant loss arising from non-performance by these parties in the past and management does not expect so in the future.

The credit risk on trade receivables is concentrated on a few customers, all of which are the bodies with PRC government background. Therefore, the directors of the Company are of the view that the credit risk is limited.

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(All amounts in RMB yuan unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to the expected credit loss model

- trade receivables and long-term receivables
- other financial assets at amortised cost

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables and long-term receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and long-term receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characterises and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2020 or 1 January 2020 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP of China, the country where the Group operates to be the most relevant factor, the default rate by client's industry group, the defaulted unsecured loan recoveries and accordingly adjusts the historical loss rates based on expected changes in this factor.

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Group – Bank notes receivable

The Group measures provision for loss allowance in accordance with the lifetime expected credit loss for the entire duration. The Group considers that there is no significant credit risk in bank notes receivable and no major loss will be caused by the issuing bank's default and no provision is deemed necessary.

On that basis, the loss allowance as at 31 December 2020 and 31 December 2019 was determined as follows for trade receivables:

By individual with specific credit risks:

31 December 2020	Carrying amount RMB' 000	Expected credit loss rate	Loss allowance RMB' 000
Tianjin Water Authority Bureau	1,012,083	0.05%	(554)
Qujing Sewage Company	187,137	22.25%	(41,630)
Hangzhou City Water Facilities and River Protection Management Center	107,811	0.05%	(59)
Guiyang Water Authority Bureau	60,391	0.05%	(33)
Xi'an Infrastructure Investment Group	36,547	0.05%	(20)
Tianjin City Appearance Sanitation Construction Development Co. Ltd	31,100	41.52%	(12,913)
Jinghai Development Area Management Committee	26,650	52.88%	(14,093)
Tianjin Ziya Environmental Protection Industrial Park Co. Ltd	16,797	100.00%	(16,797)
Tianjin Shuangkou Municipal Solid Waste Landfill	13,776	100.00%	(13,776)
Urad Front Banner Finance Bureau	10,928	100.00%	(10,928)
Urad Rear Banner Finance Bureau	10,392	100.00%	(10,392)
Zhejiang New No.3 Printing&dyeing Co. Ltd	5,731	65.03%	(3,727)
Tianjin Tianbao Municipal Administration Co. Ltd	3,612	100.00%	(3,612)
Tianjin Goldin International Club Co. Ltd.	1,548	100.00%	(1,548)
Tianjin City Investment Urban Resources Management Co., Ltd.	1,200	100.00%	(1,200)
Tianjin Ziya Circular Economy Industry Investment Development Co., Ltd.	1,020	100.00%	(1,020)
Total	1,526,723		(132,302)

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards Notes to the Consolidated Financial Statements

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

31 December 2019	Carrying amount RMB' 000	Expected credit loss rate	Loss allowance RMB' 000
Tianjin Water Authority Bureau	1,809,061	0.05%	(990)
Qijing Sewage Company	163,735	18.40%	(30,120)
Hangzhou Municipal Facilities Development Center	56,757	0.05%	(31)
Guiyang Water Authority Bureau	52,612	0.05%	(29)
Jinghai Development Area Management Committee	21,723	24.88%	(5,405)
Xi'an Infrastructure Investment Group	18,424	0.05%	(10)
Tianjin Ziya Environmental Protection Industrial Park Co. Ltd	16,797	15.97%	(2,682)
Tianjin City Appearance Sanitation Construction Development Co. Ltd	14,513	15.73%	(2,283)
Tianjin Shuangkou Municipal Solid Waste Landfill	14,208	36.98%	(5,254)
Zhejiang New No.3 Printing&dyeing Co.Ltd	5,731	65.03%	(3,727)
Tianjin Tianbao Municipal Administration Co. Ltd	5,174	28.91%	(1,496)
	<u>2,178,735</u>		<u>(52,027)</u>
Total	<u>2,178,735</u>		<u>(52,027)</u>

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards
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For the year ended 31 December 2020
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3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

On that basis, the loss allowance as at 31 December 2020 and 31 December 2019 was determined as follows for trade receivables (Continued):

Group – Non-provincial government customers

31 December 2020	Current	Less than 180 days past due	More than 180 days past due	Total
Expected loss rate	0.05%	5.41%	8.64%	
Gross carrying amount	145,974	164,318	76,037	386,329
Loss allowance	80	8,886	6,565	15,531

31 December 2019	Current	Less than 180 days past due	More than 180 days past due	Total
Expected loss rate	5.31%	5.31%	7.46%	
Gross carrying amount	102,406	107,386	57,014	266,806
Loss allowance	5,438	5,702	4,255	15,395

Group – Non-government customers

31 December 2020	Current	Less than 90 days past due	More than 90 days past due	Total
Expected loss rate	6.85%	6.85%	14.09%	
Gross carrying amount	67,571	64,180	82,809	214,560
Loss allowance	4,631	4,399	11,666	20,696

31 December 2019	Current	Less than 90 days past due	More than 90 days past due	Total
Expected loss rate	6.70%	6.70%	15.08%	
Gross carrying amount	41,844	27,352	58,983	128,179
Loss allowance	2,804	1,833	8,897	13,534

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

The loss allowances for trade receivables as at 31 December 2020 reconcile to the opening loss allowances as follows:

	2020 RMB' 000	2019 RMB' 000
Opening loss allowance at 1 January	80,956	49,584
Net impairment losses recognised in profit or loss during the year	<u>87,573</u>	<u>31,372</u>
Closing loss allowance at 31 December	<u><u>168,529</u></u>	<u><u>80,956</u></u>

For the trade receivable with no expectation of recover, the Group will write off the accounts according to the information after appropriate approval.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets at amortised cost include other receivables and long-term receivables.

Other receivables such as deposits paid are considered to have low credit risk and the loss allowance recognised during the period was therefore limited to 12 months expected losses. Management consider 'low credit risk' for financial instruments when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

The loss allowance for other receivables and long-term receivable assets at amortised cost as at 31 December 2020 reconciles to the opening loss allowance as follows:

	Other receivables RMB' 000	Long-term receivable RMB' 000
Opening loss allowance as at 1 January 2019	10	138
Increase in the allowance recognised in profit or loss during the year	11	–
Closing loss allowance as at 31 December 2019	21	138
Increase in the allowance recognised in profit or loss during the year	(5)	764
Closing loss allowance as at 31 December 2020	<u>16</u>	<u>902</u>

Net impairment losses on financial assets recognised in profit or loss

During the year, the following losses were recognised in profit or loss in relation to impaired financial assets measured at amortised cost:

	2020 RMB' 000	2019 RMB' 000
Impairment losses		
– movement in loss allowance for trade receivables	98,162	40,901
– impairment losses on other financial assets	759	11
– reversal of previous impairment losses for trade receivable	(10,589)	(9,529)
Net impairment losses on financial assets	<u>88,332</u>	<u>31,383</u>

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities and aggregated by Group finance. The Group's Finance Department monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities (Note 28). Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal consolidated balance sheet ratio targets and, if applicable external regulatory or legal requirements-for example, currency restrictions.

(i) Maturities of financial liabilities

The Group's financial liabilities (inclusive of interests) are analysed into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date, using the contracted undiscounted cash flows, as follows:

Contractual maturities of financial liabilities	Less than 1 year RMB' 000	Between 1 and 2 year RMB' 000	Between 2 and 5 year RMB' 000	Over 5 years RMB' 000	Total RMB' 000	Carrying amount RMB' 000
As at 31 December 2020						
<i>Long-term bank borrowings</i>	1,008,415	816,994	1,873,550	2,664,569	6,363,528	5,033,225
<i>Long-term payables</i>	39,447	39,064	108,369	228,395	415,275	282,840
<i>Debentures</i>	818,102	56,870	1,118,957	–	1,993,929	1,841,393
<i>Trade payables</i>	294,973	–	–	–	294,973	294,973
<i>Other payables</i>	955,631	–	–	–	955,631	955,631
<i>Dividends payable</i>	142	–	–	–	142	142
	<u>3,116,710</u>	<u>912,928</u>	<u>3,100,876</u>	<u>2,892,964</u>	<u>10,023,478</u>	<u>8,408,204</u>
As at 31 December 2019						
<i>Short-term bank borrowings</i>	205,738	–	–	–	205,738	200,000
<i>Other current liabilities</i>	21,131	–	–	–	21,131	20,250
<i>Trade payables</i>	231,293	–	–	–	231,293	231,293
<i>Dividends payable</i>	1,172	–	–	–	1,172	1,172
<i>Long-term bank borrowings</i>	970,469	808,529	1,250,571	1,726,434	4,756,003	3,818,136
<i>Long-term payables</i>	32,058	33,037	106,222	274,126	445,443	290,891
<i>Other payables</i>	1,532,842	–	–	–	1,532,842	1,532,842
<i>Debentures</i>	78,780	775,128	1,175,827	–	2,029,735	1,797,389
	<u>3,073,483</u>	<u>1,616,694</u>	<u>2,532,620</u>	<u>2,000,560</u>	<u>9,223,357</u>	<u>7,891,973</u>

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

For the year ended 31 December 2020, the Group's strategy is to maintain a gearing ratio below 50%. The gearing ratio of the Group is as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Total borrowings	7,157,458	6,126,666
Less: Cash and cash equivalents	(1,652,657)	(2,066,301)
Net debt	5,504,801	4,060,365
Total equity	7,581,643	7,142,187
Total capital	<u>13,086,444</u>	<u>11,202,552</u>
Gearing ratio	<u>42%</u>	<u>36%</u>

As at 31 December 2020, the gearing ratio of the Group increased compared to last year, which was mainly due to the increase in the Group's borrowings for financing the capital expenditure on new and upgrading projects.

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management (Continued)

(a) Loan covenants

Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants:

- The borrower's debt to asset ratio should not to be higher than the range of 65%-90% according to different borrowing contracts;
- The borrower shall not provide guarantee to third party before the approval of the lender in certain circumstances.

3.3 Fair value estimation

Financial instruments are carried at fair value as at 31 December 2020 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

As at 31 December 2020, the Group only has immaterial amount of financial assets which are required to be measured at fair value (Note 8). For all of these instruments, the fair value are not materially different from their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short term in nature.

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards Notes to the Consolidated Financial Statements

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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Recognition of non-monetary assets exchange that lack of commercial substance

An exchange transaction has commercial substance if:

- (a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or
- (b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
- (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

The entire relocation and non-monetary assets exchange arrangement of the Company's Xianyang Road Sewage Plant and Dongjiao Water Plant are conducted based on the instructions of the Tianjin Government and the Group has not been exposed to or benefit from any significant changes in risks and rewards as a result of that arrangement. In view of this, the directors of the Company are of the view that the non-monetary assets exchange arrangement has no commercial substance. Therefore, the carrying amounts of the exchanged-in assets is measured at the carrying amounts of the exchanged-out assets given up.

(b) Measurement of expected credit losses

The Group recognises the loss provision based on expected credit losses ("ECL") and default exposure. ECL is determined by probability of default and loss rate of default. In determining the ECL, the Group uses internal historical credit loss experience, and adjusts the historical data in combination with the current situation and forward-looking information.

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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Measurement of expected credit losses (Continued)

In considering forward-looking information, the Group considers different macroeconomic scenarios. For the year of 2020, the weighting for the “benchmark”, “adverse” and “favourable” economic scenarios is 50%, 25% and 25% respectively. The Group regularly monitors and reviews important macroeconomic assumptions and parameters relevant to the calculation of expected credit losses, including the risk of economic downturn, changes in gross domestic product, external market conditions and customer conditions. The Group regularly monitors and reviews assumptions relating to the calculation of expected credit losses. In 2020, the Group has taken into account the uncertainty caused by the COVID-19 outbreak and updated the relevant assumptions and parameters accordingly. The key macroeconomic parameters used in each scenario are listed below. The above estimation techniques and key assumptions have not changed significantly in 2020.

	The economic situation		
	Benchmark	Adverse	Favourable
Estimated GDP in China	5.5%	4.5%	7.0%

(c) Income tax and deferred income tax

The Group is subject to income taxes in numerous jurisdictions. There are some transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Group in determining the provision for income taxes in each of these jurisdictions. Where the final identified outcome of these tax matters is different from the initially-recorded amount, such difference will impact the income tax expenses and deferred income tax in the period in which such determination is finally made.

As mentioned in Note 12, some subsidiaries of the Group are high-tech enterprises. The qualification of high-tech enterprises are for an initial term of three years. After the termination of the qualification, it is necessary to submit a new application to the relevant government departments for the high-tech enterprises status renewal. According to historical status renewal experience and the actual situation of each subsidiaries in the past, the Group believes the subsidiaries can continue to obtain the approval for the renewal of the status of being high-tech enterprises. Hence, the Group calculates subsidiaries’ corresponding deferred income tax at the preferential rate of 15%. If some of the subsidiaries’ renewal application has not been approved after the expiry of the high-tech enterprises status, the income tax shall be calculated at the statutory tax rate of 25%. Deferred income tax assets, deferred income tax liabilities will be affected.

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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(c) Income tax and deferred income tax (Continued)

The Group recognizes the corresponding deferred income tax asset to the extent that it is likely to obtain the taxable income amount to offset the deductible loss in the future period. The taxable income obtained in future periods shall include the taxable income that can be realized by the Group through normal production and business activities, and the taxable income that will be increased when the taxable temporary differences arising from previous periods are reversed in future periods. The Group needs to use estimation and judgment when determining the time and amount of taxable income to be generated in the future period. Any discrepancy between the actual situation and the estimate may result in an adjustment to the carrying value of the deferred income tax assets.

(d) Impairment of long-term assets

The Group estimates whether there is any indication of impairment of assets on each balance sheet date. When the current decline in the estimated value of the asset is significantly higher than the expected substantial decline due to the passage of time or normal use; when significant adverse changes in the economic, technical or legal environment in which the Group operates in the recent past; when the market interest rate or the rate of return on investment in other markets increases which affect the discount rate of the present value of the future cash flow; or when the assets have become obsolete or the asset has been damaged or left idle, the Group considers that there are signs of impairment of the assets. On each balance sheet date, the Group will assess the recoverable amount of the long-term assets with evidence of impairment. The assessable amount requires the Group to estimate the future cash flows for the determination of the recoverable amounts of long-term assets. The carrying amount and the impairment provision will change, when the accounting estimate changes.

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5 SEGMENT INFORMATION

(a) Description of segments and principal activities

Management has determined the operating segments based on the reports reviewed by the strategy steering committee held regularly that are used to make strategic decisions for the purpose of allocating resources and assessing performance.

The strategy steering committee meeting considers the business primarily from service perspective and for the most significant business segments geographical perspectives will also be considered. From a service perspective, management assesses the performance of processing of sewage water, recycled water and pipeline connection, heating and cooling services, tap water operations and sales of customised environmental protection equipment. Processing of sewage water is further evaluated on a geographical basis (Tianjin plants, Hangzhou plant and other plants). The environmental protection equipment is mainly the achievement of technology research. The assets are allocated based on the operations of the respective segments and the physical location of assets. The liabilities are allocated based on the operations of the respective segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment's revenue.

Other services include provision of contract operation services, technical services, and waste treatment and disposal services etc. These are not separately presented within the reportable operating segments, but included in the 'all other segments' column.

The strategy steering committee assesses the performance of the operating segments based on a measure of profit before income tax, which is measured in the approach consistent with that in the financial statements.

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5 SEGMENT INFORMATION (Continued)

(b) Operating segment analysis

(i) For the year ended 31 December 2020

	Sewage water processing			Recycled water and pipeline connection	Heating and cooling services	Tap water operations	Sales of customised environmental protection equipment	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants						
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Segment revenue	1,270,965	259,286	862,236	317,109	100,610	99,299	43,232	411,137	3,363,874
Timing of revenue recognition:									
At a point in time	-	-	-	-	-	-	-	27,049	27,049
Over time	1,270,965	259,286	862,236	317,109	100,610	99,299	43,232	384,088	3,336,825
Segment expense	(1,014,823)	(177,919)	(711,250)	(232,168)	(57,461)	(98,177)	(21,797)	(332,095)	(2,645,690)
Segment results	256,142	81,367	150,986	84,941	43,149	1,122	21,435	79,042	718,184
Profit before income tax									718,184
Income tax expense									(112,046)
Profit for the year									606,138
Segment assets	7,072,581	880,871	7,204,756	976,934	672,597	464,438	53,894	1,281,898	18,607,969
Investment accounted for using the equity method									195,000
Total assets									18,802,969
Total liabilities	(5,883,576)	(184,476)	(3,158,339)	(915,864)	(326,655)	(7,375)	(12,525)	(732,516)	(11,221,326)
Other information									
- Interest income	12,536	877	3,184	4,130	478	30	1,503	297	23,035
- Interest expenses	(176,528)	(5,662)	(77,468)	(696)	(1,945)	(768)	-	(8,963)	(272,030)
- Depreciation and amortization	(160,902)	(53,941)	(229,440)	(25,005)	(25,624)	(15,854)	(300)	(62,155)	(573,221)
- Capital expenditures	16,322	-	700,661	13,570	32,284	28,154	21	103,918	894,930

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5 SEGMENT INFORMATION (Continued)

(b) Operating segment analysis (Continued)

(ii) For the year ended 31 December 2019

	Sewage water processing			Recycled water and pipeline connection RMB' 000	Heating and cooling services RMB' 000	Tap water operations RMB' 000	Sales of customised environmental protection equipment RMB' 000	All other segments RMB' 000	Group RMB' 000
	Tianjin plants RMB' 000	Hangzhou plant RMB' 000	Other plants RMB' 000						
Segment revenue	1,122,467	254,208	648,351	283,813	101,377	105,374	44,386	291,477	2,851,453
Timing of revenue recognition:									
At a point in time	-	-	-	-	-	-	-	18,875	18,875
Over time	1,122,467	254,208	648,351	283,813	101,377	105,374	44,386	272,602	2,832,578
Segment expense	(878,181)	(210,958)	(511,231)	(199,529)	(63,035)	(80,791)	(28,167)	(250,012)	(2,221,904)
Segment results	244,286	43,250	137,120	84,287	38,342	24,583	16,219	41,462	629,549
Profit before income tax									629,549
Income tax expense									(100,587)
Profit for the year									528,962
Segment assets	6,779,197	981,119	6,625,106	985,548	705,829	507,909	57,814	1,153,285	17,795,807
Investment accounted for using the equity method									195,000
Total assets									17,990,807
Total liabilities	(6,090,474)	(286,491)	(2,714,905)	(846,306)	(374,378)	(32,434)	(11,257)	(492,375)	(10,848,620)
Other information									
- Interest income	12,498	1,820	2,874	4,463	855	28	1,186	227	23,951
- Interest expenses	(126,783)	(11,077)	(69,493)	(56)	(3,197)	(1,712)	(9)	(1,655)	(213,982)
- Depreciation and amortization	(190,225)	(62,648)	(177,932)	(27,104)	(23,482)	(18,462)	(522)	(9,108)	(509,483)
- Capital expenditures	121,112	-	1,585,870	54,656	53,621	73,918	-	226,177	2,115,354

(iii) The Group's revenue from contracts with customers are all derived from customers in China.

The non-current assets are all located in China.

Revenue derived from one customer of the sewage water processing segment amounted to approximately RMB1,258 million, representing approximately 37% of the Group's total revenue (2019: RMB1,110 million, 39%).

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5 SEGMENT INFORMATION (Continued)

(c) Liabilities related to contracts with customers – contract liabilities

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
For recycled water and pipeline connection services	509,271	508,138
For heating supply services	7,190	8,014
For Hangu project	4,876	4,876
For hazardous wastes	3,145	6,197
For equipment sales	2,028	11,263
For sewage water services	–	12,071
Others	900	7,913
	<u>527,410</u>	<u>558,472</u>

(i) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
<i>Revenue recognised that was included in the contract liability balance at the beginning of the period</i>		
Pipeline connection service for recycled water	191,064	166,190
Heating supply services	8,014	4,074
Others	36,561	3,131
	<u>235,639</u>	<u>173,395</u>

The Group classified these contract liabilities as current because the Group expects to realise them in its normal operating cycle.

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5 SEGMENT INFORMATION (Continued)

(c) Liabilities related to contracts with customers – contract liabilities (Continued)

(ii) *Unsatisfied long-term contracts*

As at 31 December 2020, based on the pre-determined agreement price, and actual processing and supplying amount, the Group issues bills to customers at fixed period for its sewage operation services, supplies of recycled water and tap water. The bill can represent the value that the Group has transferred to customers. All consideration is included in the bills amount thus the Group did not disclose the transaction price allocated to the remaining performance obligations.

As at 31 December 2020, the consideration for pipeline connection services of approximately RMB557 million (2019: RMB556 million) of which the contracts were signed but the performance obligation is not yet fully completed, and revenue will be recognised over time based on the progress towards the completion of related performance obligations in the following years.

As at 31 December 2020, the consideration for heating supply services of approximately RMB7 million (2019: RMB8 million) of which the contracts were signed but the performance obligation is not yet fully completed. The related revenue is expected to be recognised in 2021.

As at 31 December 2020, the consideration for certain entrusted sewage operation services of approximately RMB91 million (2019: RMB61 million) of which the contracts were signed but the performance obligations is not yet fully completed, among which the Group expects the related revenue of approximately RMB90 million and RMB1 million will be recognised in 2021 and 2022 respectively.

As at 31 December 2020, the consideration for agent construction project of approximately RMB6 million (2019: RMB13 million) of which the contracts were signed but the performance obligations are not yet fully completed. The related revenue is expected to be recognised in 2021.

As at 31 December 2020, a contract of tolls road service fee of approximately RMB509 million (2019: RMB571 million) was signed but the performance obligations is not yet fully completed, among which the Group expects to recognise revenue of approximately RMB62 million in every year from 2020 to 2028, and revenue of approximately RMB13 million in 2029.

All other contracts are for periods of one year or less or are billed based on time incurred. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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6 OTHER INCOME

	2020 RMB' 000	2019 RMB' 000
Government grants	96,577	108,103
VAT refund	65,700	58,874
Others	133	12
	<u>162,410</u>	<u>166,989</u>

7 EXPENSES BY NATURE

Expenses included in cost of sales, distribution costs and administrative expenses are analysed as follows:

	2020 RMB' 000	2019 RMB' 000
Amortisation – intangible assets	516,917	462,965
Raw materials and consumables used	439,438	352,215
Employee benefit expenses	371,557	350,018
Utilities	353,804	342,274
Repair and maintenance expenses	201,931	181,978
Subcontract cost of recycling water pipeline connection service, environmental equipment and toll road management	148,127	135,556
Sewage mud processing fee	97,742	93,930
Depreciation – property, plant and equipment	54,282	43,862
Factory environment, detection and fire prevention expenses	43,015	36,759
Consulting service expenses	34,062	20,416
Travel, meeting and business entertainment expenses	20,509	21,390
Network maintenance costs	24,263	17,330
Impairment loss on intangible assets (Note 16(vi))	28,551	–
Office expenses	10,251	9,412
Impairment loss on other current assets (Note 20(a))	6,257	26,808
Expenses of secretary of the Board	5,328	4,789
Auditors' remuneration – audit services	3,300	3,300
Depreciation – right-of-use assets	2,022	2,278
Other taxes	1,652	2,663
Depreciation – investment properties	–	378
Others	64,077	51,952
	<u>2,427,085</u>	<u>2,160,273</u>

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8 EMPLOYEE BENEFIT EXPENSES

	2020 RMB' 000	2019 RMB' 000
Wages and salaries	271,468	236,651
Social security costs	65,211	67,485
Pension costs – defined contribution plans	11,204	27,062
Other benefits	23,674	18,820
	<u>371,557</u>	<u>350,018</u>

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one (2019: two) directors whose emoluments are reflected in the analysis shown in Note 39. The emoluments to the remaining four (2019: three) highest paid individuals during the year are as follows:

	2020 RMB' 000	2019 RMB' 000
Wages and salaries	1,325	1,419
Discretionary bonuses	1,622	478
Social security costs	474	360
Pension costs – defined contribution plans	111	178
Total	<u>3,532</u>	<u>2,435</u>

The emoluments fell within the following bands:

	2020	2019
Emolument bands (in HK dollar)		
HK\$500,000 – HK\$1,000,000	2	3
HK\$1,000,000 – HK\$1,500,000	<u>2</u>	<u>–</u>

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9 FINANCE COSTS – NET

	2020 RMB' 000	2019 RMB' 000
Interest expenses on borrowings	311,736	250,341
Less: Capitalised interest (a)	<u>(39,706)</u>	<u>(36,359)</u>
Net interest expenses	272,030	213,982
Net exchange (gains)/losses (b)	(10,490)	8,813
Others	<u>595</u>	<u>552</u>
	<u>262,135</u>	<u>223,347</u>
Less: Interest income	(23,035)	(23,951)
–long-term receivables	<u>(8,631)</u>	<u>(9,405)</u>
–bank deposits	<u>(14,404)</u>	<u>(14,546)</u>
Finance costs – net	<u><u>239,100</u></u>	<u><u>199,396</u></u>

(a) Capitalised borrowing costs

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's general borrowings during the year, which is 4.34% in 2020 (2019: 4.44%).

(b) Net exchange (gains)/losses

As at 31 December 2020, the exchange gains of long-term payables of the Group calculated in Japanese yen and US dollars are approximately RMB10 million (2019: RMB9 million).

10 OTHER (LOSSES)/GAINS – NET

	2020 RMB' 000	2019 RMB' 000
Gain on disposal of property, plant and equipment	21	704
Gain on disposal of other current assets	–	48,703
Others	<u>(4,835)</u>	<u>(1,532)</u>
	<u><u>(4,814)</u></u>	<u><u>47,875</u></u>

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11 EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit attributable to owners of the Company of approximately RMB570 million (2019: RMB507 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2019: 1,427 million shares).

Diluted earnings per share is calculated by adjusting weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has no dilutive potential ordinary shares. Therefore, diluted earnings per share equal to basic earnings per share and the calculations of which are as below:

	2020	2019
Profit attributable to owners of the Company (RMB' 000)	570,039	507,107
Weighted average number of ordinary shares in issue (million shares)	1,427	1,427
Basic and diluted earnings per share (RMB Yuan)	0.40	0.36

12 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profit generated in Hong Kong for the year. Taxation on PRC profits has been calculated on the estimated assessable profit for the year at the statutory corporate income tax rates of 25% except that the Company and certain subsidiaries are eligible to preferential income tax rates, or arrangement as describe below.

Name of group entities	Corporate income tax rate for 2020	Reason for the preferential tax policy
The Company	15%	According to The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control issued on April 13, 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Fuyang Capital Water Co., Ltd.	15%	According to The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control issued on April 13, 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Gui Zhou Capital Water Co., Ltd.	15%	According to Notice of Guizhou Provincial SAT on Implementation of Preferential Tax Policy Relating to Development of Western Regions, (Qian Guo shui Han[2011] No.19) from 2011 to 2020.
Xi'an Capital Water Co., Ltd.	15%	According to Notice of Shanxi Provincial SAT on Issuing Measures for Review and Management of Preferential Tax Policy of Enterprises Relating to Development of Western Regions, (Notice [2010] No. 3) from 2011 to 2020.

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12 INCOME TAX EXPENSE (Continued)

Name of group entities	Corporate income tax rate for 2020	Reason for the preferential tax policy
Hangzhou Tianchuang Capital Water Co., Ltd.	15%	According to The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control issued on April 13, 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Tianjin Caring Technology Development Co., Ltd (“Caring Company”)	15%	In 2020, Caring Company has obtained the High-tech Enterprise Certificate (Certificate No. GR201812000566) issued by Tianjin Science and Technology Bureau, Tianjin Finance Bureau and Tianjin Taxation Bureau of the State Administration of Taxation. The certificate is valid for 3 years. According to relevant provisions of Article 28 of the Enterprise Income Tax Law of the People’s Republic of China, the corporate income tax rate applicable in 2020 is 15% (2019:15%).
Tianjin Water Recycling Co., Ltd.	Taxable income amount is 90% of the total revenue	According to Cai Shui [2008] No. 47, since 1 January 2008, for revenues generated from products which were in line with national or industry standards, taxable income amount is 90% of the total revenue.
Karamay Tianchuang Capital Water Co., Ltd.	12.5%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from corporate income tax commence from 2017 for the first 3 years and reduction half for the next 3 years.
Linxia Capital Water Co., Ltd.	0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from corporate income tax commence from 2018 for the first 3 years and reduction half for the next 3 years.
Bayannur Capital Water Co., Ltd.	Sewage water: 0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from corporate income tax commence from 2018 for the first 3 years and reduction half for the next 3 years.
	Recycle water: taxable income amount is 90% of the total revenue	According to Cai Shui [2008] No. 47, since 1 January 2008, for revenues generated from products which were in line with national or industry standards, taxable income amount is 90% of the total revenue.
Yingshang Capital Water Co., Ltd.	0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from corporate income tax commence from 2018 for the first 3 years and reduction half for the next 3 years.
Dalian Oriental Chunliuhe Water Quality Purification Co., Ltd.	0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from corporate income tax commence from 2018 for the first 3 years and reduction half for the next 3 years.
Shandong Capital Environmental Protection Technology Consultant Co., Ltd.	0%	According to Cai Shui [2009] No. 166, income from engagement in qualified industrial solid waste treatment projects and hazardous waste treatment projects is subject to exemption from corporate income tax commence from 2019 for the first 3 years and reduction half for the next 3 years.

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12 INCOME TAX EXPENSE (Continued)

Name of group entities	Corporate income tax rate for 2020	Reason for the preferential tax policy
Hanshou Tianchuang Capital Water Co., Ltd.	0%	According to Cai Shui [2019] No. 67, income from rural drinking water safety projects is subject to exemption from corporate income tax commence from 2019 for the first 3 years and reduction half for the next 3 years.
Jiuquan Capital Water Co., Ltd.	0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from corporate income tax commence from 2019 for the first 3 years and reduction half for the next 3 years.
Huize Capital Water Co., Ltd.	15%	According to <i>The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control</i> issued on April 13, 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Huoqiu Capital Water Co., Ltd.	15%	According to <i>The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control</i> issued on April 13, 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Wuhan Tianchuang Capital Water Co., Ltd.	15%	According to <i>The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control</i> issued on April 13, 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.

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12 INCOME TAX EXPENSE (Continued)

	2020 RMB' 000	2019 RMB' 000
Current income tax	145,590	118,021
Deferred income tax (Note 31)	<u>(33,544)</u>	<u>(17,434)</u>
	<u><u>112,046</u></u>	<u><u>100,587</u></u>

Reconciliation between profit before income tax and the aggregate tax at the statutory corporate income tax rates in the PRC applicable to profits in the respective entities concerned is set below:

	2020 RMB' 000	2019 RMB' 000
Profit before income tax	<u>718,184</u>	<u>629,549</u>
Tax at PRC tax rate of 25% (2019: 25%)	179,546	157,387
Effect of preferential tax rates	(57,102)	(33,195)
Income not subject to tax	(51,925)	(37,070)
Expenses not deductible for taxation purposes	21,164	23,151
– Revenue recognition differences from VAT filing	–	5,724
– Depreciation not deductible	20,671	15,112
– Expenses without tax invoices	493	2,315
Utilisation of previously unrecognised tax losses and deductible temporary differences	(282)	(7,818)
Recognition of previously unrecognised deductible temporary differences	–	(6,118)
Previous year tax losses for which no deferred income tax asset was recognised	(244)	(2,456)
Current year tax losses for which no deferred income tax asset was recognised	6,337	8,193
Current year unrecognised deductible temporary differences for which no deferred income tax assets was recognised	11,699	–
Under/(over) provision in the prior year	4,107	(1,124)
Others	<u>(1,254)</u>	<u>(363)</u>
Income tax expense	<u><u>112,046</u></u>	<u><u>100,587</u></u>

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13 DIVIDENDS

(i) Ordinary shares

	2020 RMB' 000	2019 RMB' 000
Final dividend for the year ended 31 December 2019 of 10.7 cents (2018 – 10.6 cents) per fully paid share	152,713	151,285
Dividends paid in cash in the year	152,713	151,285

(ii) Dividends not recognised at the end of the reporting period

	2020 RMB' 000	2019 RMB' 000
In addition to the above dividends, since year end the directors of the Company have recommended the payment of a final dividend of 12.0 cents per fully paid ordinary share (2019: 10.7 cents). The aggregate amount of the proposed dividend expected to be paid on 30 June 2021 out of retained earnings at 31 December 2020, but not recognised as a liability at year end, is	171,267	152,713

14 RIGHT-OF-USE ASSETS

The Group's right-of-use assets represent the Group's interests in land use rights in respect of lease payments made for the use of land located in the PRC under medium term leases of 25 to 50 years. The Group's interests in land use rights are analysed as follows:

	RMB' 000
<i>Cost</i>	
At 31 December 2019	65,445
Addition	21,549
At 31 December 2020	86,994
<i>Accumulated depreciation</i>	
At 1 January 2020	(7,365)
Charges for the year	(2,022)
At 31 December 2020	(9,387)
<i>Net book value</i>	
At 31 December 2020	77,607
At 31 December 2019	58,080

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14 RIGHT-OF-USE ASSETS (Continued)

- (i) As at 31 December 2020, bank borrowings of approximately RMB311 million (Note 28(a)(i)) (2019: approximately RMB194 million) are secured by right-of-use assets with carrying amount of approximately RMB58 million (2019: approximately RMB26 million).
- (ii) As at 31 December 2020, depreciation expense of approximately RMB2 million (2019: approximately RMB2 million) has been charged in “Administrative expenses”.
- (iii) Except for the land use rights as classified as right-of-use assets as mentioned above, the Group does not have any other leasing activities which may give rise to right-of-use assets or lease liabilities to be recognised in accordance with HKFRS 16.
- (iv) As at 31 December 2020, the legal title certificates of certain land use rights with carrying amount of approximately RMB14 million and cost of approximately RMB18 million (2019: carrying amount of approximately RMB14 million and cost of approximately RMB18 million) are yet to be obtained. As these assets are supported by legal sale and purchase agreements, management of the Company is of the view that the legal titles will be obtained in due course without additional significant costs to the Group.

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards
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15 PROPERTY, PLANT AND EQUIPMENT

	Buildings and constructions RMB' 000	Machinery and equipment RMB' 000	Motor vehicles and others RMB' 000	Construction in progress RMB' 000	Total RMB' 000
<i>Cost</i>					
At 1 January 2019	312,739	299,585	69,933	150,939	833,196
Additions	101,599	144,675	10,947	1,100,576	1,357,797
Transfer from investment properties	118,408	-	-	-	118,408
Transfer to intangible assets (Note 16)	-	-	-	(1,092,301)	(1,092,301)
Disposals	(1,285)	(1,080)	(3,273)	-	(5,638)
At 31 December 2019	<u>531,461</u>	<u>443,180</u>	<u>77,607</u>	<u>159,214</u>	<u>1,211,462</u>
Additions	103,695	85,022	33,869	650,611	873,197
Transfer to intangible assets (Note 16)	-	-	-	(799,966)	(799,966)
Disposals	-	(66)	(1,017)	-	(1,083)
At 31 December 2020	<u>635,156</u>	<u>528,136</u>	<u>110,459</u>	<u>9,859</u>	<u>1,283,610</u>
<i>Accumulated depreciation</i>					
At 1 January 2019	(101,369)	(183,760)	(50,487)	-	(335,616)
Charge for the year	(13,436)	(26,426)	(4,000)	-	(43,862)
Transfer from investment properties	(34,734)	-	-	-	(34,734)
Disposals	-	606	3,151	-	3,757
At 31 December 2019	<u>(149,539)</u>	<u>(209,580)</u>	<u>(51,336)</u>	<u>-</u>	<u>(410,455)</u>
Charge for the year	(12,092)	(34,257)	(7,933)	-	(54,282)
Disposals	-	1	480	-	481
At 31 December 2020	<u>(161,631)</u>	<u>(243,836)</u>	<u>(58,789)</u>	<u>-</u>	<u>(464,256)</u>
<i>Net book value</i>					
At 31 December 2020	<u><u>473,525</u></u>	<u><u>284,300</u></u>	<u><u>51,670</u></u>	<u><u>9,859</u></u>	<u><u>819,354</u></u>
At 31 December 2019	<u><u>381,922</u></u>	<u><u>233,600</u></u>	<u><u>26,271</u></u>	<u><u>159,214</u></u>	<u><u>801,007</u></u>

- (i) As at 31 December 2020, the certificate of legal title to the building included in property, plant and equipment with carrying amount of RMB104 million and cost of RMB166 million (2019: carrying amount of RMB106 million and cost of RMB166 million) has yet to be obtained. As these assets are supported by legal sale and purchase agreements, management of the Company is of the view that the legal titles will be obtained in due course without additional significant costs to the Group.
- (ii) As at 31 December 2020, depreciation expense of RMB44 million (2019: RMB35 million) has been charged to “cost of sales” and RMB10 million (2019: RMB9 million) in “administrative expenses”.
- (iii) As at 31 December 2020, bank borrowing of RMB139 million (Note 28(a)(i)) is secured by property, plant and equipment with cost of RMB193 million (2019: RMB219 million).

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16 INTANGIBLE ASSETS

	Concession rights RMB' 000	Technical know-how and software RMB' 000	Total RMB' 000
Cost			
At 1 January 2019	12,439,141	11,946	12,451,087
Transfer from construction in progress (Note 15)	1,092,301	–	1,092,301
Other additions	757,320	237	757,557
At 31 December 2019 (i)	14,288,762	12,183	14,300,945
Transfer from construction in progress (Note 15)	799,966	–	799,966
Other decrease (vi)	(33,833)	184	(33,649)
At 31 December 2020 (i)	15,054,895	12,367	15,067,262
Accumulated amortisation			
At 1 January 2019	(2,077,283)	(7,252)	(2,084,535)
Charges for the year	(462,152)	(813)	(462,965)
At 31 December 2019	(2,539,435)	(8,065)	(2,547,500)
Charges for the year	(516,209)	(708)	(516,917)
At 31 December 2020	(3,055,644)	(8,773)	(3,064,417)
Impairment			
At 1 January 2019 and 31 December 2019	(52,083)	–	(52,083)
Impairment loss for this year (vii)	(28,551)	–	(28,551)
At 31 December 2020	(80,634)	–	(80,634)
Net book value			
At 31 December 2020	11,918,617	3,594	11,922,211
At 31 December 2019	11,697,244	4,118	11,701,362

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16 INTANGIBLE ASSETS (Continued)

- (i) As at 31 December 2020, concession right with cost of RMB770 million (2019: RMB449 million) is still under the construction period. The Group adopted the discounted cash flow model to main intangible assets under the construction which are not yet ready for their intended use. The estimated price is based on price in the concession right agreements. Other main assumptions are as follows:

Name of project	Carrying amount on 31 December 2020 (RMB'000)	Forecast period growth rate	Stable period growth rate	Discount rate
Jieshou sewage operation PPP project (second batch)	198,529	5.5%	2.5%	11%
Chibi sewage water processing plant upgrading project	183,185	15.5%	2.5%	11%
Guizhou – Shibing PPP project	81,745	12.6%	2.5%	11%
Baoying – xianhe sewage water processing plant project	67,747	5.9%	2.5%	11%
Huoqiu PPP project	47,784	4.6%	2.5%	11%
Huize urban sewage water processing facilities construction project	47,383	16.4%	2.5%	11%
Guojin – Gaocheng district water environment upgrading PPP project	42,345	16.7%	2.5%	11%
Xi'an Beishiqiao Dengjiacun upgrading and deodorant projects	34,438	13.3%	2.5%	11%
Hanshou Yuanquan water plant concession project	33,711	14.1%	2.5%	11%
	<u>736,867</u>			

- (ii) According to the policies of the Tianjin Municipal Government (the “Tianjin Government”), the Company is mandated to improve the quality standards of the effluent from its sewage treatment plants in Tianjin. As a result, the operations of the Company’s Xianyang Road Sewage Plant and Dongjiao Water Plant (include matched recycling water plant) have to be relocated and conducted in another new plants to be constructed by the Tianjin Government (namely the “New Xianyang Road Sewage Plant and the New Dongjiao Water Plant”). All of the construction costs for the new plants (together with the associated land costs) and relocation costs will be borne by the Tianjin Government.

The New Dongjiao Sewage Plant as freely provided by the Tianjin Government becomes ready for use on 1 September 2020 and all of the operations of the Dongjiao Sewage Plant has been relocated to the New Dongjiao Sewage Plant. All of the key terms of the service concession right agreement governing the operations of the Dongjiao Sewage Plant (the “Concession Right Agreement”) remains unchanged and will be inherited by the New Dongjiao Sewage Plant. The Tianjin Government has also approved that the Company can increase the tariff rates for its sewage processing services (to certain extent) so as to compensate the higher operating costs for maintaining the improved quality standards of the effluent from the New Dongjiao Sewage Plant.

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16 INTANGIBLE ASSETS (Continued)

(ii) (Continued)

As of the assets transfer date, the concession right as recognised by the Group in connection with operations of the Dongjiao Sewage Plant were included in intangible assets with the carrying amounts of RMB556 million (with cost amounts and accumulated depreciation amounts of RMB1,241 million and RMB685 million respectively).

The entire relocation and non-monetary assets exchange arrangement is conducted based on the instructions of the Tianjin Government and the Group has not been exposed to or benefit from any significant changes in risks and rewards as a result of that arrangement. In view of this, the Directors of the Company are of the view that the relocation and non-monetary assets exchange arrangement will not have any impact on the carrying amounts of right-of-use assets and intangible assets as previously recognised by the Group and the related assets (including the concession right) will continue to be depreciated or amortised on a consistent straight-line basis over their respective remaining useful lives or concession right period (as applicable).

- (iii) As at 31 December 2020, certain concession rights with carrying amounts of RMB2,508 million (cost of RMB3,241 million) (2019: carrying amounts of RMB2,646 million (cost of RMB3,323 million)) have been pledged as securities for bank borrowing of RMB1,211 million (2019: RMB527 million) (Note 28(a)(i)).
- (iv) As at 31 December 2020, amortisation expense of RMB516 million (2019: RMB462 million) has been charged to “cost of sales” and RMB1 million (RMB1 million) in “Administrative expenses”.
- (v) The amortisation period of concession rights ranges from 9 to 30 years.
- (vi) In the first and second phases of Hangzhou’s upgrading and renovation project, the provisional project cost as recognised in prior year was adjusted according to the final accounts of completion this year, resulting in a decrease of RMB34 million in the original value of intangible assets this year.
- (vii) According to estimated future operating conditions, the Group has conducted an impairment assessment on the concession right of Tianjin Jinghai Capital Water Co., Ltd. and recognised assets impairment of approximately RMB29 million.

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17A SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2020:

Name	Place of registration and operation	Nature of business and business scope	Registered capital RMB' 000	Equity interest held by the Group (%) 2020/2019	Equity interest held by the non-controlling interest (%) 2020/2019
Qijing Capital Water Co., Ltd. ("Qijing Company")	Qijing, PRC	Sewage processing, tap water supply	178,983	87/87	13/13
Guizhou Capital Water Co., Ltd.	Guizhou, PRC	Sewage processing	120,000	95/95	5/5
Baoying Capital Water Co., Ltd. ("Baoying Company")	Baoying, PRC	Sewage processing	83,000	70/70	30/30
Hangzhou Tianchuang Capital Water Co., Ltd. ("Hangzhou Company")	Hangzhou, PRC	Sewage processing	377,445	70/70	30/30
Tianjin Capital New Materials Co., Ltd.	Tianjin, PRC	Production and sales of new types of construction materials	37,500	71/71	29/29
Fuyang Capital Water Co., Ltd.	Fuyang, PRC	Sewage processing	390,111	100/100	—/—
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	Hong Kong, PRC	Sewage processing	62,987	100/100	—/—
Wendeng Capital Water Co., Ltd.	Wendeng, PRC	Sewage processing	61,400	100/100	—/—
Tianjin Jinghai Capital Water Co., Ltd.	Tianjin, PRC	Sewage processing	37,553	100/100	—/—
Tianjin Water Recycling Co., Ltd.	Tianjin, PRC	Production and sales of recycled water, development and construction of facilities of recycle water and technical consulting for water recycling business	100,000	100/100	—/—
Xi'an Capital Water Co., Ltd.	Xi'an, PRC	Sewage processing	334,000	100/100	—/—
Caring Company	Tianjin, PRC	Environmental engineering, protection and technical consultation material	33,333	60/60	40/40
Anguo Capital Water Co., Ltd.	Anguo, PRC	Sewage processing	41,000	100/100	—/—
Wuhan Tianchuang Environmental Protection Co., Ltd.	Wuhan, PRC	Sewage processing and supply of tap water	201,969	100/100	—/—
Tianjin Jinning Capital Water Co., Ltd.	Tianjin, PRC	Sewage processing	22,560	100/100	—/—
Tianjin Capital Alternative Energy Technology Co., Ltd.	Tianjin, PRC	Energy saving, innovative energy research, consulting and transfer service property management	191,951	100/100	—/—
Yingshang Capital Water Co., Ltd.	Yingshang, PRC	Sewage processing	53,000	100/100	—/—
Shandong Capital Environmental Protection Technology Consultant Co., Ltd. ("Shandong Company")	Shandong, PRC	Collection, storage and transfer of hazardous waste	105,600	55/55	45/45
Changsha Tianchuang Capital Environmental Protection Co., Ltd.	Changsha, PRC	Sewage processing	40,250	81/81	19/19
Karamay Tianchuang Capital Water Co., Ltd.	Karamay, PRC	Sewage processing	120,000	90/90	10/10
Anhui Tianchuang Capital Water Co., Ltd.	Hefei, PRC	Sewage processing	63,670	100/100	—/—
Linxia Capital Water Co., Ltd.	Linxia, PRC	Sewage processing	45,000	100/100	—/—
Dalian Oriental Chunliuhe Water Quality Purification Co., Ltd. ("Dalian Company")	Dalian, PRC	Sewage processing	94,079	64/64	36/36
Changsha Tianchuang Capital Water Co., Ltd.	Changsha, PRC	Sewage processing	19,148	80/80	20/20
Inner Mongolia Bayannur Capital Water Co., Ltd. ("Bayannur Company")	Bayannur, PRC	Sewage processing, production, and sales of recycled water and supply of tap water	1,067,578	70/70	30/30
Honghu Tianchuang Capital Water Co., Ltd.	Honghu, PRC	Sewage processing	131,331	85/85	15/15
Hefei Capital Water Co., Ltd.	Hefei, PRC	Sewage processing	205,957	100/100	—/—
Deqing Capital Water Co., Ltd.	Deqing, PRC	Sewage processing	60,000	90/90	10/10
Hebei Guojin Tianchuang Capital Water Co., Ltd. ("Guojin Company")	Gaocheng, PRC	Sewage processing, production and sales of recycled water	217,497	59/59	41/41
Hanshou Tianchuang Capital Water Co., Ltd.	Hanshou, PRC	Supply of tap water	45,000	75/75	25/25
Jiuquan Capital Water Co., Ltd. ("Jiuquan Company")	Jiuquan, PRC	Sewage processing	178,238	89/89	11/11
Huize Capital Water Co., Ltd. (Note)	Huize, PRC	Sewage processing, centralized water supply	412,368	79/—	21/—
Huoqiu Capital Water Co., Ltd. ("Huoqiu Company") (Note)	Huoqiu, PRC	Sewage processing	412,830	90/—	10/—
Dongying Tianchi Environmental Protection Technology Consultant Co., Ltd. (Note)	Dongying, PRC	Solid waste treatment	136,300	51/—	49/—

Note:

Those three subsidiaries are newly established in 2020.

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17A SUBSIDIARIES (Continued)

(i) Material non-controlling interests

The total non-controlling interests as at 31 December 2020 are approximately RMB990 million (2019: RMB968 million), of which approximately RMB771 million (2019: RMB772 million) are attributable to following subsidiaries that material to the Group:

	At 31 December 2020 RMB' 000	At 31 December 2019 RMB' 000
Hangzhou Company	212,188	214,057
Bayannur Company	333,206	337,398
Caring Company	49,598	49,650
Shandong Company	84,341	82,112
Guojin Company	91,450	89,148
	<u>770,783</u>	<u>772,365</u>

The individual non-controlling interests in other subsidiaries are not material. Summarised financial information on subsidiaries with material non-controlling interests is set out as below:

Summarised balance sheet

	At 31 December 2020						
	Current assets RMB' 000	Current liabilities RMB' 000	Current net assets/ (liabilities) RMB' 000	Non-current assets RMB' 000	Non-current liabilities RMB' 000	Non-current net assets RMB' 000	Net assets RMB' 000
Hangzhou Company	257,033	83,606	173,427	634,735	100,870	533,865	707,292
Bayannur Company	111,109	17,762	93,347	1,023,152	5,811	1,017,341	1,110,688
Caring Company	154,949	37,246	117,703	6,522	229	6,293	123,996
Shandong Company	59,411	81,836	(22,425)	504,874	293,825	211,049	188,624
Guojin Company	27,572	24,072	3,500	270,892	51,343	219,549	223,049
	<u>610,074</u>	<u>244,522</u>	<u>365,552</u>	<u>2,440,175</u>	<u>452,078</u>	<u>1,988,097</u>	<u>2,353,649</u>

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17A SUBSIDIARIES (Continued)

(i) Material non-controlling interests (Continued)

Summarised balance sheet (Continued)

	At 31 December 2019						
	Current assets RMB' 000	Current liabilities RMB' 000	Current net assets/ (liabilities) RMB' 000	Non-current assets RMB' 000	Non-current liabilities RMB' 000	Non-current net assets RMB' 000	Net assets RMB' 000
Hangzhou Company	277,436	153,740	123,696	722,580	132,751	589,829	713,525
Bayannur Company	90,362	14,870	75,492	1,061,028	11,861	1,049,167	1,124,659
Caring Company	146,105	29,747	116,358	8,032	266	7,766	124,124
Shandong Company	57,661	104,957	(47,296)	425,597	194,431	231,166	183,870
Guojin Company	58,759	–	58,759	200,676	42,000	158,676	217,435
	<u>630,323</u>	<u>303,314</u>	<u>327,009</u>	<u>2,417,913</u>	<u>381,309</u>	<u>2,036,604</u>	<u>2,363,613</u>

Summarised income statement

	Year ended 31 December 2020			
	Revenue RMB' 000	Profit/(loss) for the year RMB' 000	Profit/(loss) allocated to NCI RMB' 000	Dividends paid to NCI RMB' 000
Hangzhou Company	259,560	79,377	23,813	25,683
Bayannur Company	82,657	(13,972)	(4,192)	–
Caring Company	129,356	11,872	4,749	4,800
Shandong Company	77,425	4,754	2,228	–
Guojin Company	12,567	5,615	2,302	–
	<u>561,565</u>	<u>87,646</u>	<u>28,900</u>	<u>30,483</u>

	Year ended 31 December 2019			
	Revenue RMB' 000	Profit/(loss) for the year RMB' 000	Profit/(loss) allocated to NCI RMB' 000	Dividends paid to NCI RMB' 000
Hangzhou Company	254,539	31,091	9,327	–
Bayannur Company	85,615	13,466	4,040	–
Caring Company	122,493	8,785	1,602	–
Shandong Company	14,387	(4,590)	(2,066)	–
Guojin Company	–	(62)	(25)	–
	<u>477,034</u>	<u>48,690</u>	<u>12,878</u>	<u>–</u>

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17A SUBSIDIARIES (Continued)

(i) Material non-controlling interests (Continued)

Summarised statement of cash flows

	Year ended 31 December 2020				
	Cash flows from/(used in) operating activities RMB' 000	Cash flows (used in)/from investing activities RMB' 000	Cash flows (used in)/from financing activities RMB' 000	Net (decrease)/increase in cash and cash equivalents RMB' 000	Cash and cash equivalents at the end of the year RMB' 000
Hangzhou Company	94,918	(15,501)	(148,149)	(68,732)	146,664
Bayannur Company	15,918	(814)	–	15,104	28,359
Caring Company	8,366	21	(12,000)	(3,613)	91,553
Shandong Company	2,118	(95,353)	74,241	(18,994)	18,147
Guojin Company	(1,579)	(53,412)	9,342	(45,649)	13,110
	<u>119,741</u>	<u>(165,059)</u>	<u>(76,566)</u>	<u>(121,884)</u>	<u>297,833</u>
	Year ended 31 December 2019				
	Cash flows from/(used in) operating activities RMB' 000	Cash flows used in investing activities RMB' 000	Cash flows (used in)/from financing activities RMB' 000	Net (decrease)/increase in cash and cash equivalents RMB' 000	Cash and cash equivalents at the end of the year RMB' 000
Hangzhou Company	130,900	(27,530)	(148,281)	(44,911)	215,396
Bayannur Company	9,578	(4,651)	–	4,927	13,255
Caring Company	12,899	(712)	–	12,187	95,210
Shandong Company	4,873	(212,072)	217,894	10,695	37,141
Guojin Company	(56)	(200,682)	259,497	58,759	58,759
	<u>158,194</u>	<u>(445,647)</u>	<u>329,110</u>	<u>41,657</u>	<u>419,761</u>

17B INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
Associates	217,358	217,358
Less: provision for long-term equity investment (a)	(22,358)	(22,358)
	<u>195,000</u>	<u>195,000</u>

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17B INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Continued)

Details of the associates are as below:

	Registration place	Registration capital RMB' 000	Shareholding/ voting %
Tianjin International Machinery Co., Ltd. (a)	Tianjin	120,000	27.50%
Tianjin Bihai Sponge City Co., Ltd. (b)	Tianjin	650,000	30.00%

(a) Tianjin International Machinery Co., Ltd. (“International Machinery”) is a sino-foreign joint venture company registered in the Tianjin Economic-technological Development Area. The principal activities of International Machinery include research and development, production and sale of valve and actuating devices; heater exchanger; environment protection equipment; engineering technical consultation; trading; manufacturing and sale of general equipment. The Group’s investment in International Machinery is considered as fully impaired and full provision for impairment had been recognised in 2016 to reduce the Group’s interest in the associate to zero.

(b) Tianjin Bihai Sponge City Co., Ltd. (“Bihai Sponge City”) is a limited liability company registered in Tianjin. The principal activities of Bihai Sponge City include construction and operation of water processing projects; purchase and manufacture of water processing equipments ecological restoration; tourism development; ecological management; Bihai Sponge City project construction and operating management; municipal engineering construction and operation. Bihai Sponge City was registered on 30 July 2018 and is still in the initial construction and pre-operation period.

Summarised investing movement for Bihai Sponge City

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
Net book value of investments	<u>195,000</u>	<u>195,000</u>
Attributable comprehensive income for the year:		
– Net profit	–	–
– Other comprehensive income	–	–
Total comprehensive income	<u>–</u>	<u>–</u>

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18 FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME:

	31 December 2020 RMB'000	31 December 2019 RMB'000
Unlisted securities at fair value:		
– Equity securities	<u>2,000</u>	<u>2,000</u>

The investments represents an investment in the equity shares of an unlisted entity which do not have a quoted market price in an active market. The investment is stated at costs as the Group were of the view that the fair value were not materially different with the costs. The investment is denominated in RMB.

19 LONG-TERM RECEIVABLES

	31 December 2020 RMB'000	31 December 2019 RMB'000
Receivables from Tianjin Water Authority Bureau (a)	1,431,761	–
Receivables from toll road concession right (b)	236,592	253,812
Less: loss allowance for impairment of long-term receivables	<u>(902)</u>	<u>(138)</u>
	1,667,451	253,674
Less: current portion	<u>(20,049)</u>	<u>(17,224)</u>
	<u><u>1,647,402</u></u>	<u><u>236,450</u></u>

(a) In 2020, with the influence of Coronavirus Disease 2019 (the “COVID-19”), the actual collection of receivables from Tianjin Water Authority Bureau was significantly below expectation. Based on the historical collection experience and the expectation of future payment scheme, the Group has reclassified the present value of receivables of which collection is expected to be exceeding 12 months as long-term receivables. The expected credit loss rate for the aforesaid long-term receivables is 0.05%, which is consistent with expected credit loss rate as applied for the remaining trade receivables with Tianjin Water Authority Bureau. The balance of loss allowances is approximately RMB1 million.

(b) The Group receives toll road fee from Tianjin Municipal and Highway Management Bureau (the ‘Bureau’) over the concession period till 2029. Receivables from toll road concession represent the amortised costs of the related receivables as calculated using effective interest method with reference to the guaranteed minimum future traffic flow over the concession period.

The Bureau is a public institution of the Tianjin Municipal Government. The credit risk level of the Bureau is low. Based on past experience, the receivables can be collected within agreed period. Therefore, management has assessed and determined that the expected credit loss rate for this receivable item is 0.05%.

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20 OTHER NON-CURRENT ASSETS

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
Other current assets:		
Input tax of VAT	76,774	52,605
Current portion of long-term receivables (Note 19)	20,049	17,224
Income tax prepaid	2,484	–
Input VAT to be verified	2,970	13,642
Concession right assets to be returned (a)	–	6,257
	102,277	89,728
Other non-current assets:		
Input tax of VAT	193,783	169,965
Prepayments for construction projects	108,316	18,221
Prepayment for land use rights	20,454	–
Others	8,418	7,733
	330,971	195,919

- (a) As at 31 December 2020, the Group has conducted an impairment assessment on the related assets of Anguo Capital Water Co., Ltd. and recognised an asset impairment charge of approximately RMB6 million on the concession right assets to be returned.

21 INVENTORIES

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
Raw materials	11,868	10,888
Finished goods	5,118	3,529
Spare parts and low value consumables	474	388
	17,460	14,805

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22 TRADE RECEIVABLES

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
Trade receivables	2,054,241	2,508,246
Bank notes receivable	<u>2,656</u>	<u>16,131</u>
Receivables from third parties	2,056,897	2,524,377
Receivables from related parties (Note 36)	<u>73,371</u>	<u>65,474</u>
	2,130,268	2,589,851
Less: loss allowance (see Note 3.1(b))	<u>(168,529)</u>	<u>(80,956)</u>
	<u><u>1,961,739</u></u>	<u><u>2,508,895</u></u>

- (i) The majority of the Group's sales are on credit or documents against payment. The ageing analysis of the trade receivables based on invoice date were as follows:

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
Within 1 month	347,063	517,692
1 month to 1 year	1,508,955	1,352,969
1 to 2 years	139,324	641,788
2 to 3 years	69,336	52,987
More than 3 years	<u>65,590</u>	<u>24,415</u>
Total	<u><u>2,130,268</u></u>	<u><u>2,589,851</u></u>

- (ii) Impairment and risk exposure

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Note 3.1(b) provides for details about the calculation of the loss allowance and the related movement during the years ended 31 December 2020 and 2019.

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23 OTHER RECEIVABLES

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
Deposits	6,846	26,847
VAT refund receivables (i)	5,007	31,670
Others	12,280	6,660
	24,133	65,177
Less: loss allowance (Note 3.1(b))	(16)	(21)
	24,117	65,156

(i) The VAT refund is due from the local tax authorities at balance sheet date.

24 CASH AND CASH EQUIVALENTS

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
Cash in hand	14	37
Bank balance and deposits	1,663,632	2,079,576
	1,663,646	2,079,613
Less: Restricted cash (i)	(10,989)	(13,312)
Cash and cash equivalents	1,652,657	2,066,301

(i) As at 31 December 2020, bank balance and deposits of approximately RMB11 million (2019: RMB13 million) are restricted as borrowing guarantee deposits.

25 SHARE CAPITAL

Movement of the Company's authorised, issued and fully paid share capital is set out below. All of the Company's shares are ordinary shares with par value of RMB1.

	Number of circulating A-shares (thousands)	Number of circulating H-shares (thousands)	Total number of shares (thousands)	Total share capital RMB' 000
At 31 December 2018, 2019 and 2020	1,087,228	340,000	1,427,228	1,427,228

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25 SHARE CAPITAL (Continued)

A-shares represent shares listed on the Shanghai Stock Exchange and H-shares represent shares listed on the Main Board of The Stock Exchange of Hong Kong Limited. All the A-shares and H-shares rank pari passu in all respects.

There is no movement in the Group's issued A-shares and H-shares during the years ended 31 December 2020 and 2019.

26 OTHER RESERVES

	Capital reserve (Note(i)) RMB'000	Statutory reserves RMB'000	Total RMB'000
Balance at 1 January 2019	431,024	517,107	948,131
Profit appropriation to statutory reserve (Note(i))	–	41,143	41,143
Balance at 31 December 2019	431,024	558,250	989,274
Profit appropriation to statutory reserve (Note(i))	–	60,804	60,804
Balance at 31 December 2020	431,024	619,054	1,050,078

- (i) In accordance with PRC laws and regulations, companies established in the PRC are required to transfer at least 10% of their net profit for the year, as determined under the PRC accounting standards, to relevant reserves until the reserve reaches 50% of the registered capital. Such reserves can be used to offset accumulated losses, capitalisation into capital and expansion of production.

27 RETAINED EARNINGS

	2020 RMB'000	2019 RMB'000
Balance at 1 January	3,757,523	3,442,844
Net profit for the year	570,039	507,107
Profit appropriation to statutory reserves (Note 26)	(60,804)	(41,143)
Dividends declared (Note 13)	(152,713)	(151,285)
Balance at 31 December	4,114,045	3,757,523

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27 RETAINED EARNINGS (Continued)

- (i) According to the approval of the general meeting of shareholders on 13 May 2020, the Company paid a cash dividend of RMB10.7 cents per fully paid ordinary share to all shareholders of the Company. The total dividend approximately RMB153 million was paid, based on 1,427 million issued shares.
- (ii) According to the approval of the meeting of the Board on 25 March 2021, the Board of Directors proposed that the Company shall pay a cash dividend of RMB12.0 cents per fully paid ordinary share to all shareholders of the Company. The total dividend approximately RMB171 million will be paid, based on 1,427 million issued shares. The above proposal has yet to be approved by the general meeting of shareholders (Note 37(1)).

28 BORROWINGS

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
<i>Non-current:</i>		
Long-term bank borrowings (Note (a))	5,033,225	3,818,136
Less: Current portion	<u>(805,331)</u>	<u>(811,380)</u>
	<u>4,227,894</u>	<u>3,006,756</u>
Debentures (Note (b))	1,798,419	1,840,363
Less: Current portion	<u>(699,571)</u>	<u>(42,974)</u>
	<u>1,098,848</u>	<u>1,797,389</u>
Long-term payables (Note (c))	282,840	290,891
Less: Current portion	<u>(35,106)</u>	<u>(28,239)</u>
	<u>247,734</u>	<u>262,652</u>
<i>Total non-current borrowings</i>	<u>5,574,476</u>	<u>5,066,797</u>
<i>Current:</i>		
Unsecured short-term bank borrowings	–	200,000
Current portion of long-term bank borrowings (Note (a))	805,331	811,380
Current portion of debentures (Note (b))	699,571	–
Current portion of interest payable for the debentures	42,974	–
Current portion of long-term payables (Note (c))	<u>35,106</u>	<u>28,239</u>
	<u>1,582,982</u>	<u>1,039,619</u>
Other current liabilities (Note (d))	–	20,250
<i>Total current borrowings</i>	<u>1,582,982</u>	<u>1,059,869</u>
Total borrowings	<u><u>7,157,458</u></u>	<u><u>6,126,666</u></u>

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards

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28 BORROWINGS (Continued)

(a) Long-term bank borrowings

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
Secured (Note (i))	1,522,559	763,762
Guaranteed (Note (ii))	2,497,386	1,904,374
Unsecured	<u>1,013,280</u>	<u>1,150,000</u>
	<u><u>5,033,225</u></u>	<u><u>3,818,136</u></u>

- (i) As at 31 December 2020, bank borrowing of RMB172 million (2019: RMB194 million) is secured by right-of-use assets (Note 14) of Shandong Capital Environmental Protection Technology Consultant Co., Ltd.. Bank borrowing of RMB139 million (2019: Nil) is secured by right-of-use assets (Note 14) and property and equipment (Note 15).

As at 31 December 2020, bank borrowing of RMB710 million (2019: RMB527 million) is secured by all earnings and equity of Jingu and Beicang upgrading project under the Group's concession rights (Note 16). As at 31 December 2020, bank borrowing of RMB51 million (2019: RMB43 million) is secured by certain concession right of a subsidiary, the Guojin Company. (Note 16) As at 31 December 2020, bank borrowing of RMB415 million (2019: Nil) is secured by certain concession right, of the Jiuquan Company (Note 16). As at 31 December 2020, bank borrowing of RMB35 million (2019: Nil) is secured by all earnings and equity of Huoqiu Company under the Group's concession right (Note 16).

- (ii) As at 31 December 2020, bank borrowings of RMB71 million (2019: RMB110 million) is guaranteed by ultimate shareholder, City Infrastructure Construction and Investment. As at 31 December 2020, bank borrowings of RMB2,426 million (2019:RMB1,794 million) is guaranteed by the Company for certain of its subsidiaries.
- (iii) The interest rates of the long-term bank borrowings range from 3.330% to 5.150% per annum as at 31 December 2020 (2019: 4.275% to 5.463% per annum).
- (iv) The carrying amounts of the Group's long-term bank borrowings are denominated in RMB.

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28 BORROWINGS (Continued)

(a) Long-term bank borrowings (Continued)

(v) As at 31 December 2020, the Group's long-term bank borrowings were repayable as follows:

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
Within 1 year	805,331	811,380
1 to 2 years	645,730	684,304
2 to 5 years	1,500,982	995,356
Over 5 years	2,081,182	1,327,096
	5,033,225	3,818,136

(vi) The carrying amounts of long-term bank borrowings approximate their fair values as at 31 December 2020 because they bear interests at prevailing floating market rates throughout their maturity periods.

(b) Debentures

	31 December 2019 RMB' 000	Additions RMB' 000	Repayment RMB' 000	Amortisation RMB' 000	31 December 2020 RMB' 000
Par value	1,800,000	–	–	–	1,800,000
Transaction cost	(2,611)	–	–	1,030	(1,581)
	1,797,389	–	–	1,030	1,798,419

Debentures are analysed as follows:

	Par value RMB' 000	Issue date	Duration	Issue amount RMB' 000
Debenture I(i)	700,000	25 October 2016	5 years	700,000
Debenture II(ii)	1,100,000	26 April 2018	5 years	1,100,000

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28 BORROWINGS (Continued)

(b) Debentures (Continued)

Interest accrued/paid for the debentures is analysed as follows:

	31 December 2019 RMB'000	Interest accrued/paid		31 December 2020 RMB'000
		Interest accrued in current year RMB'000	Interest paid in current year RMB'000	
Debenture I(i)	4,022	21,910	(21,910)	4,022
Debenture II(ii)	38,952	56,870	(56,870)	38,952
	<u>42,974</u>	<u>78,780</u>	<u>(78,780)</u>	<u>42,974</u>

(i) On 25 October 2016, the Company issued a debenture at par value of RMB700 million on The Shanghai Stock Exchange. Interests are payable annually at the fixed interest of 3.13% per annum. The debenture will be due for repayment on 25 October 2021.

(ii) On 26 April 2018, the Company issued a debenture at par value of RMB1,100 million on The Shanghai Stock Exchange. Interests are payable annually at the fixed interest of 5.17% per annum. The debenture will be due for repayment on 26 April 2023.

(c) Long-term payables

	31 December 2020			31 December 2019		
	Principal amounts of the payable RMB'000	Unrecognised financing charges RMB'000	Carrying amounts RMB'000	Principal amounts of the payable RMB'000	Unrecognised financing charges RMB'000	Carrying amounts RMB'000
Payable for assets acquisition	<u>415,275</u>	<u>(132,435)</u>	<u>282,840</u>	<u>445,444</u>	<u>(154,553)</u>	<u>290,891</u>

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28 BORROWINGS (Continued)

(c) Long-term payables (Continued)

(i) Summary of terms of long-term payables above:

	Maturity date	Effective interest rate	Ending balance at 31 December 2020 RMB' 000	Current portion at 31 December 2020 RMB' 000
Tianjin Sewage Company (Sewage Company)	20 March 2041	5.94%	266,640	27,506
Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	<u>03 March 2023</u>	<u>3.80%</u>	<u>16,200</u>	<u>7,600</u>

The balance of the long-term payables to Sewage Company is the consideration payable in respect of the acquisition of sewage processing assets from Sewage Company, net of unrecognised financing charges.

Pursuant to the 'Assets transfer agreement from foreign banks loans about Haihe River Tianjin sewage processing project and Beicang sewage processing project', Sewage Company sold to the Company certain sewage processing assets. The first instalment of RMB261 million was settled in cash and the remaining amount is to be settled on a quarterly basis in RMB translating at exchange rates prevailing on each repayment date over the remaining 22 years till March 2041. The fair value of the initial recognition of the payable balance was RMB430 million, assessed based on discounted future cash payments and the discount rate of 5.94%.

The balance of the long-term payables to Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd. is the amount of sale-leaseback assets of Shandong Capital Environmental Protection Technology Consultant Co., Ltd..

The carrying amounts of long-term payables are denominated in the following currencies:

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
JPY	196,100	205,685
US dollar	70,540	85,206
CNY	<u>16,200</u>	<u>–</u>
	<u>282,840</u>	<u>290,891</u>

The balance denominated in US dollar bears interests at the rate of 6 month LIBOR plus 0.6% and the balance denominated in JPY bears interests at the fixed interest rates carrying from 1% or 1.55% per annum.

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28 BORROWINGS (Continued)

(c) Long-term payables (Continued)

(ii) The long-term payables is maturing as follows:

	31 December 2020 RMB'000	31 December 2019 RMB'000
Within 1 year	35,106	28,239
1 to 2 years	29,188	27,465
2 to 5 years	76,901	78,625
Over 5 years	141,645	156,562
	<u>282,840</u>	<u>290,891</u>

(d) Other current liabilities

	31 December 2020 RMB'000	31 December 2019 RMB'000
Entrusted loans due within one year	<u>–</u>	<u>20,250</u>

29 OTHER LIABILITIES

	31 December 2020 RMB'000	31 December 2019 RMB'000
Other non-current liabilities		
Receipt in advance of subsidies for provision of cooling services	<u>34,000</u>	<u>36,000</u>

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30 DEFERRED REVENUE

Deferred revenue represents the subsidies received from governmental authorities with respects to the Group's certain construction and research and development projects. Details of the deferred revenue are as below:

	31 December 2019 RMB' 000	Additions RMB' 000	Recognised in other income RMB' 000	31 December 2020 RMB' 000	Assets Related/ income Related
Sewage water processing project:					
– Jingu project	1,207,260	–	(51,285)	1,155,975	Assets related
– Jingu upgrading project	156,480	–	(6,520)	149,960	Assets related
– Beichen upgrading project	86,400	–	(3,600)	82,800	Assets related
– Xianyanglu-upgrading project	56,716	–	(2,363)	54,353	Assets related
– Dongjiao-upgrading project	39,798	–	(1,658)	38,140	Assets related
– Ningxiang project	17,348	–	(931)	16,417	Assets related
– Beishiqiao-upgrading project	9,635	–	(719)	8,916	Assets related
– Linxia project	9,392	–	(326)	9,066	Assets related
– Chibi project	5,500	2,250	–	7,750	Assets related
Water recycling project:					
– Jingu	199,498	–	(5,564)	193,934	Assets related
– Dongjiao	20,406	–	(675)	19,731	Assets related
– Beichen	17,587	–	(525)	17,062	Assets related
– Xianyanglu	12,344	–	(441)	11,903	Assets related
Heating and cooling supply service project	210,269	6,207	(9,057)	207,419	Assets related
Others	11,069	683	(3,744)	8,008	Income related
	<u>2,059,702</u>	<u>9,140</u>	<u>(87,408)</u>	<u>1,981,434</u>	
Total					

31 DEFERRED INCOME TAX

(i) Deferred income tax assets before offsetting

	31 December 2020		31 December 2019	
	Deductible temporary differences and deductible losses RMB' 000	Deferred income tax assets RMB' 000	Deductible temporary difference and deductible loss RMB' 000	Deferred income tax assets RMB' 000
Provisions for assets	145,668	36,417	69,322	17,330
Unrecognised financing income	61,224	15,306	–	–
Accrued expenses	26,870	6,717	10,000	2,500
Accrued liabilities	19,557	2,934	16,010	2,402
	<u>253,319</u>	<u>61,374</u>	<u>95,332</u>	<u>22,232</u>
Deferred income tax assets to be recovered within 1 year		9,237		4,440
Deferred income tax assets to be recovered after more than 1 year		<u>52,137</u>		<u>17,792</u>
		<u>61,374</u>		<u>22,232</u>

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31 DEFERRED INCOME TAX (Continued)

(i) Deferred income tax assets before offsetting (Continued)

(a) The movement in deferred income tax assets during the year is as follows:

	2020 RMB' 000	2019 RMB' 000
At 1 January	22,232	–
Credited to profit or loss (Note 12)	<u>39,142</u>	<u>22,232</u>
At 31 December	<u><u>61,374</u></u>	<u><u>22,232</u></u>

(ii) Deferred income tax liabilities before offsetting

	31 December 2020		31 December 2019	
	Taxable temporary differences RMB' 000	Deferred income tax liabilities (a) RMB' 000	Taxable temporary differences RMB' 000	Deferred income tax liabilities RMB' 000
Amortisation of concession rights (a)	545,687	136,422	521,412	130,353
Business combination	<u>51,146</u>	<u>12,786</u>	<u>53,028</u>	<u>13,257</u>
	<u>596,833</u>	<u>149,208</u>	<u>574,440</u>	<u>143,610</u>
Deferred income tax liabilities to be settled within 1 year		5,123		4,848
Deferred income tax liabilities to be settled after more than 1 year		<u>144,085</u>		<u>138,762</u>
		<u><u>149,208</u></u>		<u><u>143,610</u></u>

(a) Deferred income tax liabilities were recognised on temporary differences arising between the tax bases of concession right and their carrying amounts, which is to be recovered within the concession period.

(b) The movement in deferred income tax liabilities during the year is as follows:

	2020 RMB' 000	2019 RMB' 000
At 1 January	143,610	138,812
Charged to profit or loss (Note 12)	<u>5,598</u>	<u>4,798</u>
At 31 December	<u><u>149,208</u></u>	<u><u>143,610</u></u>

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31 DEFERRED INCOME TAX (Continued)

(ii) Deferred income tax liabilities before offsetting (Continued)

(c) Unrecognised temporary differences

The deductible temporary differences of which deferred income tax assets have not been recognised are analysed as follows:

	2020 RMB' 000	2019 RMB' 000
Impairment of assets	167,999	121,205
Provision for restoration costs (Note 32)	7,461	8,588
	175,460	129,793

(d) Unrecognised deferred income tax assets of tax losses

Deferred income tax assets were recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately RMB19 million (2019: RMB16 million) in respect of losses amounting to RMB78 million (2019: RMB59 million).

The unrecognised tax losses will expire in the following years:

Year	2020 RMB' 000	2019 RMB' 000
2020	–	6,243
2021	5,124	5,124
2022	3,466	3,466
2023	11,061	11,061
2024	32,774	32,773
2025	25,350	–
	77,775	58,667

The net balances of deferred income tax assets and deferred income tax liabilities after offsetting are shown below:

	31 December 2020		31 December 2019	
	Set-off amount RMB' 000	After offsetting the balance RMB' 000	Set-off amount RMB' 000	After offsetting the balance RMB' 000
Deferred income tax assets	(48,409)	12,965	(18,023)	4,209
Deferred income tax liabilities	(48,409)	100,799	(18,023)	125,587

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32 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	31 December 2019 RMB' 000	Increase RMB' 000	Decrease RMB' 000	31 December 2020 RMB' 000
Provision for restoration costs	24,598	2,072	(3,198)	23,472
Others	–	3,546	–	3,546
	<u>24,598</u>	<u>5,618</u>	<u>(3,198)</u>	<u>27,018</u>
To be utilised:				
– within 1 year	12,933			13,281
– after 1 year	11,665			13,737
	<u>24,598</u>			<u>27,018</u>

33 TRADE PAYABLES, OTHER PAYABLES, INCOME TAX AND OTHER TAXES PAYABLE

	Notes	2020 RMB' 000	2019 RMB' 000
Trade payables	(a)	294,973	231,293
Other payables	(b)	955,631	1,532,842
Income tax and other taxes payables	(c)	56,841	86,188
		<u>1,307,445</u>	<u>1,850,323</u>

(a) Trade payable

The aging analysis of trade payables based on supplier's invoice date is as below:

	2020 RMB' 000	2019 RMB' 000
Within 1 year	205,716	164,526
Overdue more than 1 year	89,257	66,767
	<u>294,973</u>	<u>231,293</u>

As at 31 December 2020, trade payables are mainly payable for purchases of inventories. The trade payable with aging more than 1 year are mainly source water charges payable by Qujing Company of RMB43 million, and the subcontract costs payable by Tianjin Water Recycling Co., Ltd of RMB30 million. As the Group has not yet recovered the relevant sewage treatment charges and the related projects have not yet been completed, the Group has not settled the related payable balances.

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33 TRADE PAYABLES, OTHER PAYABLES, INCOME TAX AND OTHER TAXES PAYABLE (Continued)

(b) **Other payables**

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
Construction costs payable	838,871	1,224,453
Payable for purchases of property, plant and equipment and concession rights	18,930	171,392
Interest payable for borrowings and debentures	2,097	42,974
Others	95,733	94,023
	<u>955,631</u>	<u>1,532,842</u>

As at 31 December 2020, other payables of approximately RMB642 million (2019: RMB665 million) were aged over one year, which are mainly payables and deposits received in connection with the Dalian Oriental Chunliuhe sewage processing project, Karamay sewage water processing PPP project and Honghu sewage plants construction upgrading projects. The balances had yet to be settled as those projects and their final accounts have not been completed.

(c) **Income tax and other taxes payables**

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
VAT payables	24,234	37,256
Income tax payables	18,092	32,083
Others	14,515	16,849
	<u>56,841</u>	<u>86,188</u>

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020
(All amounts in RMB yuan unless otherwise stated)

34 CASH FLOW INFORMATION

(a) Cash generated from operations

	2020 RMB' 000	2019 RMB' 000
Profit before income tax	718,184	629,549
Adjustments for:		
– Amortisation of deferred revenue (Note 30)	(83,664)	(84,470)
– Depreciation and amortisation	573,221	509,483
– Gain on disposal of property, plant and equipment and other current assets (Note 10)	(21)	(49,407)
– Net impairment losses on financial assets	88,332	31,383
– Impairment loss on other current assets and intangible assets	34,808	26,808
– Interest income on bank deposit (Note 9)	(14,404)	(14,546)
– Interest expense of borrowings (Note 9)	272,030	213,982
– Net exchange (gains)/losses (Note 9)	(10,490)	8,813
	<u>1,577,996</u>	<u>1,271,595</u>
Changes in working capital		
– Increase in inventories	(2,655)	(814)
– Increase in receivables	(913,914)	(454,711)
– Increase in other operating assets (i)	(25,637)	(91,566)
– (Decrease)/increase in other taxes payables	(15,356)	19,870
– (Decrease)/increase in contract liabilities	(31,062)	89,287
– Increase in other operating liabilities (ii)	82,268	101,076
Cash generated from operations	<u><u>671,640</u></u>	<u><u>934,737</u></u>

(i) Other operating assets mainly include prepayment and other current assets.

(ii) Other operating liabilities mainly include trade and other payables.

(b) Major non-cash transactions

Under the restoration and non-monetary assets exchange arrangement as mentioned in Note 16(ii), the Company has transferred its entire interests in the Dongjiao Sewage Plant (including the land) to the Tianjin Government on 1 September 2020 in exchange for the New Dongjiao Sewage Plant as freely provided by the Tianjin Government to continue the related sewage processing operations till the end of the related concession right agreement.

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards
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34 CASH FLOW INFORMATION (Continued)

- (c) In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment and other current assets comprise:

	2020 RMB' 000	2019 RMB' 000
Net book amount of the related assets being disposed (Notes 15 and 20)	602	5,729
Gain on disposal of property, plant and equipment and other current assets	21	49,407
	<u>623</u>	<u>55,136</u>

- (d) Net debt reconciliation

This section sets out an analysis of net debts and the movements in net debts for each of the periods presented.

	As at 31 December	
	2020 RMB' 000	2019 RMB' 000
Net debts		
Cash and cash equivalents	1,652,657	2,066,301
Borrowings – repayable within one year	(1,582,982)	(1,059,869)
Borrowings – repayable after one year	(5,574,476)	(5,066,797)
Net debts	<u>(5,504,801)</u>	<u>(4,060,365)</u>
Cash and cash equivalents	1,652,657	2,066,301
Gross debts – fixed interest rates	(2,037,493)	(2,223,324)
Gross debts – variable interest rates	(5,119,965)	(3,903,342)
Net debts	<u>(5,504,801)</u>	<u>(4,060,365)</u>

	Cash and cash equivalents RMB' 000	Liabilities from financing activities		Total of net debts RMB' 000
		Borrowings due within 1 year RMB' 000	Borrowings due after 1 year RMB' 000	
Net debts as at 1 January 2019	1,808,543	(443,369)	(4,114,683)	(2,749,509)
Cash flows	257,758	(614,119)	(928,945)	(1,285,306)
Foreign exchange adjustments	–	(856)	(7,957)	(8,813)
Other non-cash movements	–	(1,525)	(15,212)	(16,737)
Net debts as at 31 December 2019	<u>2,066,301</u>	<u>(1,059,869)</u>	<u>(5,066,797)</u>	<u>(4,060,365)</u>
Cash flows	(413,644)	(477,855)	(496,776)	(1,388,275)
Foreign exchange adjustments	–	768	6,680	7,448
Other non-cash movements	–	(46,026)	(17,583)	(63,609)
Net debts as at 31 December 2020	<u>1,652,657</u>	<u>(1,582,982)</u>	<u>(5,574,476)</u>	<u>(5,504,801)</u>

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards

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35 COMMITMENTS

The Group's capital expenditure contracted for at the end of the year but not yet recognised as liabilities is as follows:

	Contracted but not provided for		Authorised but not contracted for	
	31 December 2020 RMB' million	31 December 2019 RMB' million	31 December 2020 RMB' million	31 December 2019 RMB' million
Property, plant and equipment	–	31	–	34
Intangible assets	503	1,414	220	1,088
	<u>503</u>	<u>1,445</u>	<u>220</u>	<u>1,122</u>

36 RELATED PARTY TRANSACTIONS

(1) Information of the parent of the Company

(a) General information of the parent Company

Name	Type	Place of registration	Legal representative	Nature of business
Municipal Investment	Limited liability company	Tianjin, the PRC	Yu Zhongpeng	Development and management of municipal infrastructures

The Company's ultimate controlling party is City Infrastructure Construction and Investment.

(b) Registered capital and changes in registered capital of the parent company

	31 December 2019 RMB' 000	Increase in current year RMB' 000	Decrease in current year RMB' 000	31 December 2020 RMB' 000
Municipal Investment	<u>1,820,000</u>	<u>–</u>	<u>–</u>	<u>1,820,000</u>

(c) The percentages of shareholding and voting rights in the Company held by the parent company

	31 December 2020		31 December 2019	
	Shareholding (%)	Voting rights (%)	Shareholding (%)	Voting rights (%)
Municipal Investment	<u>50.14</u>	<u>50.14</u>	<u>50.14</u>	<u>50.14</u>

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards Notes to the Consolidated Financial Statements

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36 RELATED PARTY TRANSACTIONS (Continued)

(2) Information of subsidiaries

The information of the subsidiaries is set out in Note 17a.

(3) Information of associate

The information of the associate is set out in Note 17b.

(4) Information of other related parties

Tianjin Lecheng Properties Limited
Tianjin City Resource Operation Co., Ltd.
Tianjin City Infrastructure Construction and
Investment Chuangzhan Leasing Co., Ltd.

Relationship with the Group

Controlled by the same ultimate holding company
Controlled by the same ultimate holding company
Controlled by the same ultimate holding company

(5) Related party transactions

In addition to those disclosed elsewhere in the consolidated financial statements, the following transactions were carried out with related parties:

(a) Purchase of goods and sales of services

Purchases of goods

Related party	Nature of transaction	2020 RMB' 000	2019 RMB' 000
City Infrastructure Construction and Investment	Contracted operating expenses	7,426	–

Sales of services

Related party	Nature of transaction	2020 RMB' 000	2019 RMB' 000
City Infrastructure Construction and Investment	Commission income from contract operation	84,004	84,738
Tianjin Lecheng Properties Limited	Income from heating and cooling supply	28,763	33,165
City Infrastructure Construction and Investment	Commission income from technical services	6,467	1,936
		119,234	119,839

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36 RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(a) Purchase of goods and sales of services (Continued)

The Group's pricing on pipeline construction contract service and heating supply service with related parties are based on the reference price stipulated by the local government. Other transactions were conducted at terms as agreed with the respective related parties in the ordinary course of business.

(b) Sale-leaseback

Rent payment

Founders	Type of leased assets	2020 RMB' 000	2019 RMB' 000
Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	Fixed assets	<u>3,800</u>	<u>–</u>

(c) Guarantee :

Guarantor	Guarantee	Amount RMB' 000	Starting date	Due date
City Infrastructure Construction and Investment	Xi'an Capital Water Co., Ltd.	71,000	28 September 2008	27 September 2022

(d) Key management compensation:

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
Key management compensation	<u>12,137</u>	<u>11,998</u>

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36 RELATED PARTY TRANSACTIONS (Continued)

(6) Year-end balances arising from sales/purchases of services/goods

(a) Receivables from related parties

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
Receivables from related parties:		
Trade receivables		
– City Infrastructure Construction and Investment	46,537	60,423
– Tianjin Lecheng Properties Limited	21,342	4,650
– Tianjin City Resource Operation Co., Ltd.	401	401
	68,280	65,474

The receivables from related parties arise mainly from services provided and are due within one year after the date of sales. The receivables are unsecured in nature and interest free. As at 31 December 2020, provisions for loss allowance of RMB3 million has been recognised on the receivables from related parties.

(b) Payables to related parties

	Related party	2020 RMB' 000	2019 RMB' 000
Non-current liabilities due within one year	Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	7,600	–
Long-term payables	Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	8,600	–

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards Notes to the Consolidated Financial Statements

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36 RELATED PARTY TRANSACTIONS (Continued)

(7) Transactions/balances with other state-owned enterprises in the PRC

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled by the PRC government (hereinafter collectively referred to as ‘state-owned enterprises’).

During the year, the Group’s significant transactions with these state controlled entities include processing of sewage water, construction and management of related facility, processing of tap water and supply of heating. As at 31 December 2020, majority of the Group’s cash and cash equivalents and borrowings are deposited/arranged with state controlled banks.

37 EVENTS AFTER THE REPORTING PERIOD

(1) Dividend distribution

	Dividend
Proposed dividend	171,267
Declared dividend	152,713

At the Board meeting held on 25 March 2021, the resolution in respect of the proposed adoption of profit available for dividend to all shareholders is approximately RMB171 million, have been approved by the Board.

(2) Acquisition of 100% equity interest in Gaoyou Compro Environmental Resources Co., Ltd. (“Gaoyou Compro”) and Jiangsu Yonghui Resources Utilization Co., Ltd. (“Jiangsu Yonghui”)

According to the approval of the meeting of Board of directors of the Group dated 24 December 2020, the Group proposed acquisition of 100% equity interest in Gaoyou Compro and Jiangsu Yonghui from their controlling shareholder, Bosideng Co., Ltd.. (collectively the “Target Companies”). The Target Companies are principally engaged in the provision of waste recycling and industrial solid waste incineration disposal services. The considerations for the aforesaid acquisitions are RMB383 million and RMB397 million respectively. The Group completed the payment of the consideration and industrial and commercial registration on 26 January 2021 (“the acquisition date”). As of the date of these consolidated financial statements, the Group is still assessing the fair value of the identifiable net assets of the Target Companies acquired on the acquisition date.

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37 EVENTS AFTER THE REPORTING PERIOD (Continued)

(3) A Share Option Incentive Scheme

According to the approval of the meeting of Board of directors dated 27 November 2020, the Group is authorised to grant share options to certain directors and senior management. The number of share options proposed to be granted under the scheme is 14,270,000 and the corresponding number of underlying shares is 14,270,000 A shares, representing not more than 1.0% of the Company's total issued share capital; where 12,170,000 options was granted on 21 January 2021, representing approximately 0.85% of the total issued capital of the Company; and 2,100,000 options will be reserved, representing approximately 0.15% of the total issued capital of the Company. The current share options shall not be exercised before the expiration of 24 months from the date of grant. The participants shall exercise the options if exercise conditions and performance indicators assessment are fulfilled. The exercise price of the share option granted under the scheme is RMB6.98 per share.

The exercise arrangement is as follows:

Exercise period	Exercise time	Proportion of exercise
First Exercise Period	From the first trading day after 24 months has passed since the date of grant to the last trading day within 36 months from the date of grant	1/3
Second Exercise Period	From the first trading day after 36 months has passed since the date of grant to the last trading day within 48 months from the date of grant	1/3
Third Exercise Period	From the first trading day after 48 months has passed since the date of grant to the last trading day within 60 months from the date of grant	1/3

During the vesting period, based on the best estimation of the number of viable equity instruments, the services acquired in the current period shall be included into relevant costs or expenses according to the fair value of the grant date of the share option, and the capital reserves shall be increased accordingly. If subsequent information indicates that the number of vestable interest instruments is different from previously estimation, it will be adjusted to the actual number of vestable equity instruments on the vestable date. On the exercise date, the amount to be transferred into the share capital shall be calculated based on the number of equity instruments actually exercised and transferred to the share capital. As of the date of these consolidated financial statements, the fair value of share options at the date of grant is still under valuation to be conducted by an independent valuer.

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards
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38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2020	2019
	RMB' 000	RMB' 000
ASSETS		
Non-current assets		
Property, plant and equipment	148,891	161,611
Intangible assets	3,862,526	4,018,932
Right-of-use assets	3,330	3,002
Investments in subsidiaries	4,223,545	4,067,052
Financial assets at fair value through other comprehensive income	2,000	2,000
Long-term receivables	1,647,402	236,450
Other non-current assets	40,832	115,332
	<u>9,928,526</u>	<u>8,604,379</u>
Current assets		
Inventories	5,995	4,811
Trade receivables	1,126,477	1,958,081
Prepayments	–	1,916
Other current assets	395,060	495,790
Other receivables	25,883	87,945
Restricted cash	5,151	5,075
Cash and cash equivalents	617,960	736,182
	<u>2,176,526</u>	<u>3,289,800</u>
Total assets	<u><u>12,105,052</u></u>	<u><u>11,894,179</u></u>

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38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

	As at 31 December	
	2020	2019
	RMB' 000	RMB' 000
LIABILITIES		
Non-current liabilities		
Borrowings	3,114,454	3,865,673
Deferred revenue	1,524,402	1,593,830
Deferred income tax liabilities	36,085	60,642
Provisions for other liabilities and charges	11,665	11,665
	4,686,606	5,531,810
Current liabilities		
Trade payables	43,558	65,904
Contract liabilities	4,950	4,950
Salaries and wages payable	43,202	30,463
Income tax and other taxes payables	4,688	31,101
Other payables	230,454	417,707
Borrowings	1,597,151	769,939
Provisions for other liabilities and charges	9,735	12,933
	1,933,738	1,332,997
Total liabilities	6,620,344	6,864,807
Net assets	5,484,708	5,029,372
EQUITY		
Equity attributable to owners of the Company		
Share capital	1,427,228	1,427,228
Other reserves	999,842	939,038
Retained earnings	3,057,638	2,663,106
	5,484,708	5,029,372
Total equity	5,484,708	5,029,372

The financial statements on pages 336 to 338 were approved by the Board of Directors on 25 March 2021 and were signed on its behalf.

Liu Yujun
Chairman

Niu Bo
Director

14. Financial Statements Prepared in accordance with Hong Kong Financial Reporting Standards
Notes to the Consolidated Financial Statements

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38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

	Share capital RMB' 000	Other reserves RMB' 000	Retained earnings RMB' 000	Total RMB' 000
Total equity at 1 January 2019	1,427,228	897,895	2,444,111	4,769,234
Comprehensive income				
– Profit for the year	–	–	411,423	411,423
Transactions with owners in their capacity as owners				
– Profit appropriation to statutory reserves	–	41,143	(41,143)	–
– Dividends declared	–	–	(151,285)	(151,285)
Total transactions with owners	–	41,143	218,995	260,138
Balance at 31 December 2019	1,427,228	939,038	2,663,106	5,029,372
Total equity at 1 January 2020	1,427,228	939,038	2,663,106	5,029,372
Comprehensive income				
– Profit for the year	–	–	608,049	608,049
Transactions with owners in their capacity as owners				
– Profit appropriation to statutory reserves	–	60,804	(60,804)	–
– Dividends declared	–	–	(152,713)	(152,713)
Total transactions with owners	–	60,804	394,532	455,336
Balance at 31 December 2020	1,427,228	999,842	3,057,638	5,484,708

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39 BENEFITS AND INTERESTS OF DIRECTORS

Directors' emoluments

The remuneration of directors of the Company for the year ended 31 December 2020 was as follows:

Name	Emoluments paid in respect of person's services as a director of the Company					Emoluments paid in respect of director's other services with the management of the affairs of the Company					Total RMB' 000
	Fees RMB' 000	Salary RMB' 000	Discretionary bonuses RMB' 000	Housing fund and other social security contributions RMB' 000	Employer's contribution to a retirement benefit scheme RMB' 000	Salary RMB' 000	Discretionary bonuses RMB' 000	Housing fund and other social security contributions RMB' 000	Employer's contribution to a retirement benefit scheme RMB' 000		
Chairman:											
Liu Yujun	-	-	-	-	-	336	607	119	28	1,090	
Executive directors:											
Wang Jing	-	-	-	-	-	305	358	119	28	810	
Niu Bo	-	-	-	-	-	287	278	119	28	712	
Independent non-executive directors:											
Wang Xiangfei	220	-	-	-	-	-	-	-	-	220	
Guo Yongqing	220	-	-	-	-	-	-	-	-	220	
Di Xiaofeng	220	-	-	-	-	-	-	-	-	220	
	<u>660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>928</u>	<u>1,243</u>	<u>357</u>	<u>84</u>	<u>3,272</u>	

The remuneration of directors of the Company for the year ended 31 December 2019 was as follows:

Name	Emoluments paid in respect of person's services as a director of the Company					Emoluments paid in respect of director's other services with the management of the affairs of the Company					Total RMB' 000
	Fees RMB' 000	Salary RMB' 000	Discretionary bonuses RMB' 000	Housing fund and other social security contributions RMB' 000	Employer's contribution to a retirement benefit scheme RMB' 000	Salary RMB' 000	Discretionary bonuses RMB' 000	Housing fund and other social security contributions RMB' 000	Employer's contribution to a retirement benefit scheme RMB' 000		
Chairman:											
Liu Yujun	-	-	-	-	-	479	160	120	59	818	
Executive directors:											
Wang Jing	-	-	-	-	-	445	146	120	59	770	
Niu Bo	-	-	-	-	-	385	110	120	59	674	
Independent non-executive directors:											
Wang Xiangfei	220	-	-	-	-	-	-	-	-	220	
Guo Yongqing	220	-	-	-	-	-	-	-	-	220	
Di Xiaofeng	220	-	-	-	-	-	-	-	-	220	
	<u>660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,309</u>	<u>416</u>	<u>360</u>	<u>177</u>	<u>2,922</u>	

15. List of Documents Available for Inspection

1. Financial statements with the signatures and seals of the officer in charge of the Company, the officer in charge of the accounting function, and the officer in charge of the accounting department (the accounting management officer)
2. Original of the audit report with the seal of the accounting firm and the signatures and seals of certified public accountants
3. Originals of all documents and announcements of the Company publicly disclosed on the website designated by the China Securities Regulatory Commission during the reporting period
4. Annual report published in other securities markets