KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED

康達國際環保有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 6136

Annual Report 2020

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhao Juanxian (alias, Zhao Junxian) (Co-Chairman)
Mr. Li Zhong (Co-Chairman)
Ms. Liu Yujie
Mr. Duan, Jerry Linnan (Chief Executive Officer)

Independent Non-executive Directors

Mr. Chau Kam Wing Donald
Mr. Chang Qing
Mr. Peng Yongzhen

AUDIT COMMITTEE

Mr. Chau Kam Wing Donald (Chairman)
Mr. Chang Qing
Mr. Peng Yongzhen

REMUNERATION COMMITTEE

Mr. Peng Yongzhen (Chairman)
Mr. Zhao Juanxian (alias, Zhao Junxian)
Mr. Chau Kam Wing Donald

NOMINATION COMMITTEE

Mr. Chau Kam Wing Donald (Chairman)
Mr. Zhao Juanxian (alias, Zhao Junxian)
Mr. Li Zhong
Mr. Peng Yongzhen
Mr. Chang Qing

COMPANY SECRETARY

Mr. Wong Wan Sing (appointed on 20 January 2020)
Mr. Lie Chi Wing (resigned on 20 January 2020)

AUTHORISED REPRESENTATIVES

Mr. Zhao Juanxian (alias, Zhao Junxian)
Mr. Li Zhong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

CORPORATE INFORMATION

HEADQUARTER AND PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA ("CHINA" OR THE "PRC")

No. 72 Avenue of Stars
High-Tech Park
North New Zone
Chongqing
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 6409, 64/F
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18 Harbour Road
Wanchai
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3, Building D
P.O. Box 1586
Gardenia Court
Camana Bay
Grand Cayman KY1-1100
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

LEGAL ADVISER

As to Hong Kong law and PRC law:
King & Wood Mallesons

PRINCIPAL BANKER

Industrial and Commercial Bank of China
Chongqing Rural Commercial Bank
Bank of China
Shanghai Pudong Development Bank
Australia and New Zealand Banking Group Limited

AUDITOR

Ernst & Young

STOCK CODE

6136

COMPANY WEBSITE

http://www.kangdaep.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Kangda International Environmental Company Limited (the "Company") together with its subsidiaries (collectively, the "Group"), I am pleased to present the annual report of the Group for the year ended 31 December 2020 to you.

RESULTS REVIEW

In 2020, global economic activities and people's lives were affected by the novel coronavirus (the"COVID-19") epidemic, and some industries contracted or even suspended. However, wastewater treatment is more important under the epidemic and local governments also consider it an important part of the success of epidemic prevention and control. During the year, the National Development and Reform Commission, the Ministry of Ecology and Environment of the PRC (國家生態環境部) and other ministries and commissions successively issued the Notice on the Supervision of Medical Sewage and Urban Sewage for the Pneumonia Epidemic caused by the Novel Coronavirus Infection (《關於做好新型冠狀病毒感染的肺炎疫情醫療污水和城鎮污水監管工作的通知》), the Implementation Opinions on Creating a Better Development Environment to Support the Healthy Development of Private Energy-saving and Environmental Protection Enterprises (《關於營造更好發展環境支持民營節能環保企業健康發展的實施意見》), the Implementation Plan of Urban Domestic Sewage Treatment Facilities to Improve the Strength and Weakness of Shoring (《城鎮生活污水處理設施補短板强弱項實施方案》), the Notice on Further Regulating the Environmental Management of Urban (Industrial Park) Sewage Treatment (《關於進一步規範城鎮(園區)污水處理環境管理的通知》)and other policy documents, which fully demonstrated the emphasis and support of the country on the sewage treatment and environmental protection industries.

During the epidemic, on the one hand, the Group adopted "enclosed-style" management of its wastewater treatment facilities to ensure the normal operation of wastewater treatment facilities and the safety of employees, and on the other hand, strengthened the management of wastewater treatment facilities under construction to ensure the smooth completion of the construction work as planned. During the year, our projects in Huiyang, Huizhou, Longkou, Shandong, Ma' an, Huizhou, etc. commenced commercial operation successively, leading to an increase of approximately 10% in the actual processing volume of wastewater to 1,133.6 million tonnes as compared to the year of 2019. Due to the construction and commencement of operation of new projects and the increase in wastewater treatment tariff, the total revenue in 2020 increased by approximately 18% to RMB3,332.4 million as compared to the year of 2019, reaching the historical highest revenue amount. The Group recorded gross profit of RMB1,325.6 million for the Year, representing an increase of approximately 14% as compared with RMB1,162.6 million in 2019. At the same time, the Group continued to deepen various cost control measures. In terms of the growth of revenue and operating scale, the selling and distribution expenses and administrative expenses still decreased by approximately 50% and approximately 11% to RMB2.5 million and RMB217.6 million as compared to the year of 2019, respectively. For the year ended 31 December 2020, profit attributable to the equity shareholders of the Group was RMB470.5 million, representing an increase of approximately 25% over 2019, achieving a record level of profitability, which is equivalent to basic earnings per share of RMB22.39 cents. As at 31 December 2020, net asset value per share of the Group was RMB2.44, representing an increase of approximately 8% as compared to the previous year.

On 8 May 2020, China Water Affairs Group Limited ("China Water") completed the subscription for and Baring Private Equity Asia V Holding (5) Limited ("BPEA") issued the exchangeable bonds (the "Exchangeable Bonds"), which entitle the holders thereof to exchange for 344,129,996 shares of the Company (representing approximately 16.08% of the entire issued share capital of the Company) held by BPEA. The completion of the subscription and issue of the Exchangeable Bonds demonstrates the confidence of the two major shareholders in the development of the Company.

CHAIRMAN'S STATEMENT

In terms of financial resources, the Group obtained a syndicated loan of US$55 million led by Australia and New Zealand Banking Group during the year, opening up the overseas syndicated loan of the Group and other diversified financing channels, which effectively improved the debt structure and optimized the cost of capital.

DEVELOPMENT STRATEGY AND FUTURE OUTLOOK

In January 2021, ten ministries and commissions, including the National Development and Reform Commission, jointly issued the Guiding Opinions on Promoting the Recycling of Sewage (《關於推進污水資源化利用的指導意見》), which clarified that by 2025, the national sewage collection efficiency, sewage treatment capacity and reclaimed water utilization rate will be significantly improved. There will be a systematic, safe, environmental-friendly and economical sewage recycling pattern to be formed by 2035. The Group will seize the opportunities provided by the national policies, continue to focus on the development of the main business of municipal wastewater treatment, and increase revenue by increasing the tariff and wastewater treatment volume. At the same time, it will deepen the refined management of the Group's production and operation, save energy and reduce consumption, improve efficiency and increase quality, and give full play to the scale effect and the synergy effect between shareholders of the Company (the "Shareholders"), and deeply explore the extension of the industrial chain, including wastewater resource recycling and reclaimed water utilization business, operation and maintenance of urban drainage pipe network. The Group will also continue to improve its operational efficiency and optimize its debt structure to reduce operating costs, administrative expenses and financing costs, enhance profitability and ultimately create greater value for Shareholders.

Finally, I would like to take this opportunity to express our gratitude to all the Shareholders and all the collaborative partners of our Group for their dedicated support to the Group's development, and also to all staff of our Group for their endeavors and contributions made during the year.

Li Zhong
Co-Chairman

Hong Kong, 25 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

During the year ended 31 December 2020 (the "Reporting Period"), our principal business activities remained focusing on the Urban Water Treatment, followed by the existing projects of Water Environment Comprehensive Remediation and the Rural Water Improvement.

The scope of Urban Water Treatment includes the design, construction, upgrade and operation of wastewater treatment plants (the "WTPs"), reclaimed water treatment plants (the "RWTPs"), sludge treatment plants (the "STPs"), water distribution plants (the "WDPs"), and in the operation and maintenance of wastewater treatment facilities entrusted by governments (the "O&M"). The Group's business has covered the overall industry chain in Urban Water Treatment industry by executing contracts of Build-Operate-Transfer (the "BOT"), Transfer-Operate-Transfer (the "TOT"), Public-Private-Partnership (the "PPP"), Build- Own-Operate (the "BOO"), Engineering Procurement Construction (the "EPC") and O&M.

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

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

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

1.1 Urban Water Treatment

As at 31 December 2020, the Group had entered into a total of 112 service concession arrangements projects, including 105 wastewater treatment plants, 2 water distribution plants, 3 sludge treatment plants and 2 reclaimed water treatment plants. The Group will further expand its Urban Water Treatment chain in the future, in order to improve its profitability and competitiveness.

Analysis of the Group's projects on hand as at 31 December 2020 is as follows:

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

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

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

1.1.1 Operation Services

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

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

1.1.2 Construction Services

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

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

1.2 Water Environment Comprehensive Remediation

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

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

1.3 Rural Water Improvement

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

FINANCIAL ANALYSIS

Revenue

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

Cost of Sales

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

Gross Profit Margin

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

Other Income and Gains

The Group recorded other income and gains of RMB107.2 million for the year ended 31 December 2020, representing a decrease of approximately 41% as compared to the previous corresponding period of RMB182.0 million. The amount for this Reporting Period primarily included government grants of RMB50.0 million, which mainly comprised of VAT refund under "Notice on the Issuing of the Catalogue of Value-Added Tax Preferences for Products and Labor Services Involving the Comprehensive Utilization of Resources (Cai Shui [2015] No. 78)"* (關於印發《資源綜合利用產品和勞務增值税優惠目錄》的通知 (財税[2015]78號文)) and grants for environmental protection, bank interest income of RMB4.7 million, interest income of RMB18.9 million from loans to third parties and a joint venture, gains on foreign exchanges of RMB5.6 million, and other investment income of RMB26.2 million.

Selling and Distribution Expenses

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

Administrative Expenses

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

Other Expenses

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

* For identification purposes only

Finance Costs

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

Share of Profits and Losses of Associates

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

Share of Profits and Losses of Joint Ventures

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

Income Tax Expense

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

Financial Receivables

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

As at 31 December 2020, the Group's financial receivables of RMB10,006.7 million (31 December 2019: RMB9,158.0 million) increased by RMB848.7 million, which was mainly due to the increase in financial receivables which were reclassified from contract assets once the construction and upgrade period is ended for the water treatment projects.

Contract Assets

	As at	
	31 December 2020 RMB'000	31 December 2019 RMB'000
Contract assets	**2,297,247**	2,249,371
Portion classified as current	**(222,337)**	(222,236)
Non-current portion	**2,074,910**	2,027,135

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

Trade and Bills Receivables

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

Prepayments, Other Receivables and Other Assets

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

Cash and Cash Equivalents

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

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

Note:

(1) For the year ended 31 December 2020 and 2019, the Group invested RMB791.8 million and RMB567.1 million, respectively, in the Group's BOT/TOT and PPP projects. Such investments were accounted for as cash flows used in operating activities. Under the relevant accounting treatment, part of such cash outflows used in operating activities was used to form the non-current portion of financial receivables and contract assets in the Group's consolidated statement of financial position. For the year ended 31 December 2020 and 2019, the Group would have incurred cash inflows of RMB1,035.5 million and RMB682.1 million, respectively, if the Group's investments in BOT/TOT and PPP activities were not accounted for as cash flows used in operating activities.

Trade and Bills Payables

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

Other Payables and Accruals

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

Liquidity and Financial Resources

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

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

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

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

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

Charges on the Group's Assets

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

Capital Expenditure

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

EMPLOYEES AND REMUNERATION POLICIES

The Group had 2,448 employees as at 31 December 2020. The remuneration package of the Group is generally determined with reference to market conditions and individual performance. Salaries are normally reviewed annually based on performance appraisals and other relevant factors. The Group provides external and internal training programs to its employees.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant contingent liabilities (31 December 2019: Nil).

FOREIGN EXCHANGE RISK

Majority of the subsidiaries of the Company operate in the PRC with most of the transactions denominated and settled in RMB. As at 31 December 2020, except for the bank deposits and certain amount of interest-bearing bank borrowings denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations. Currently, the Group has not used derivative financial instruments to hedge its foreign currency risk.

EVENTS AFTER THE REPORTING PERIOD

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

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Board is responsible and has general powers for the management and operation of the Group's business. The Board currently consists of seven Directors, including four executive Directors and three independent non-executive Directors.

The biographical details of the Directors during the year ended 31 December 2020 and up to the date of this annual report are set out below:

Executive Directors

Mr. Zhao Juanxian (alias, Zhao Junxian) (趙雋賢), aged 68, is the founder of the Group. He is an executive Director, and the co-chairman of the Board (the "Co-Chairman") of the Company, responsible for strategic development and planning, overall operational management, market development and major decision making. He was appointed as a Director on 22 August 2011. He has acted as a director and the chief executive officer of Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd.* (重慶康達環保產業(集團)有限公司) ("Chongqing Kangda"), an indirectly wholly-owned subsidiary of the Company, since the beginning of the establishment of Chongqing Kangda and ceased to be the chief executive officer of Chongqing Kangda in September 2012. Mr. Zhao has served as the chairman of the board of directors and general manager of Chongqing Kangte Environmental Protection Industry Holdings Co., Ltd.* (重慶康特環保產業控股有限公司) since November 1994. He graduated from the political administration at elementary level* (黨政幹部基礎科專業) from Sichuan University* (四川大學) located in Chengdu City, Sichuan Province, and Sichuan Higher Vocational and Examination Committee* (四川省高等中專教育自學考試指導委員會) in June 1988, and attended a one-month education programme of Sichuan foreign-related business from Shenzhen University* (深圳大學) located in Shenzhen City, Guangdong Province, in July 1988.

Mr. Zhao Juanxian has over 25 years of experience in the environmental protection and wastewater treatment industry and was awarded for several times for his valuable contribution to the development of environmental protection and his expertise in environmental protection technology by relevant environmental protection industry associations from 2004 to 2009. Mr. Zhao Juanxian was granted the title of Outstanding Environmental Technology Entrepreneurs by the Chinese Society for Environmental Sciences* (中國環境科學學會) in September 2004. He received the China Environmental Protection Industry Development Award granted by the China Association of Environmental Protection Industry* (中國環境保護產業協會) in January 2005. He was also granted the title of Outstanding Individual of Environmental Protection by the People's Government of Chongqing Municipal* (重慶市人民政府) in July 2006 and Outstanding Entrepreneur of China Environmental Protection Industry by China Association of Environmental Protection Industry* (中國環境保護產業協會) in October 2009. Mr. Zhao Juanxian served as the vice president of the 3rd and 4th Session of Chongqing Municipal Environmental Protection Industry Association* (重慶市環境保護產業協會第三屆及第四屆理事會) in 2005 and 2012, respectively, and the vice president of the 3rd and 4th Session of China Association of Environmental Protection Industry* (中國環境保護產業協會第三屆及第四屆理事會) in 2005 and 2009, respectively. In January 2015, he served as the vice chairman of the board of directors of China State-owned Industry Innovation Alliance (中國國資國企產業創新戰略聯盟) and the vice chairman of the board of directors of Hong Kong-Mainland International Investment Society (香港國際投資總會), respectively.

* For identification purposes only

DIRECTORS AND SENIOR MANAGEMENT

Mr. Li Zhong (李中), aged 52, was graduated from Beijing University of Chemical Technology* (北京化工大學) with a major in polymer materials, and obtained a master degree in business administration from Saint Mary's University of Canada in 1997. He holds registered engineer certifications from both the PRC and Canada, and has served in national state-owned enterprises and Global 500 enterprises in the PRC and Hong Kong for over 20 years. Since 2002, he has dedicated himself to urban public utilities with a focus on water affairs, as well as the investment, management and operation of infrastructure projects. Since 2004, he has been a director of Shenzhen Bus Group Co. Ltd. Mr. Li Zhong also serves as deputy president of China Environment Chamber of Commerce, a member of the Standing Committee of the Shenzhen Municipal Committee of the Chinese People's Political Consultative Conference* (中國人民政治協商會議深圳市委員會常委), and the honorary chairman of the Hong Kong Volunteers Association. Currently, he is also an executive director of China Water (a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 855)). He joined the Group in 2019.

Ms. Liu Yujie (劉玉杰), aged 56, was graduated from University of International Business and Economic* (對外經濟貿易大學) located in Beijing and obtained a master degree in business administration. Ms. Liu Yujie has been working in Hong Kong, Singapore and the PRC for over 20 years in total and is familiar with the business environment and regulatory system of the three places. She has comprehensive experience in capital market, business promotion and corporate management, participated in IPO and underwriting of over 30 companies on the Hong Kong Stock Exchange, led and completed merger and acquisition of three companies in Hong Kong and Singapore, assisted capital raising and management of large-scale industrial fund for investment in the PRC, and acted as executive directors of listed companies in Hong Kong and Singapore which engaged in utilities and infrastructure investment. Currently, she is also an executive director of New Universe Environmental Group Limited (stock code: 436), an executive director of China Water and an independent non-executive director of Zhongyu Gas Holdings Limited (stock code: 3633), which are listed on the main board of the Hong Kong Stock Exchange. She joined the Group in 2019.

Mr. Duan, Jerry Linnan (段林楠), aged 30, studied in Beijing Normal University with a major in psychology. He joined China Water as the president assistant in 2011, mainly focusing on hotel operating and intelligent water businesses. At the same time, Mr. Duan assisted the directors of China Water in capital market and investor relations, etc. In 2015, Mr. Duan was appointed as the general manager of the hotel under China Water in Nanjing, and was in charge of the construction, procurement and daily operation of various hotels of China Water. Mr. Duan has comprehensive experiences in human resources and corporate management. Currently, he is also an executive director of China Water. He joined the Group in 2019.

Independent non-executive Directors

Mr. Chau Kam Wing (周錦榮), aged 58, has over 20 years of experience in auditing, taxation and financial management and had been appointed as financial controller of a number of companies listed on the Hong Kong Stock Exchange. Mr. Chau obtained a master degree in business administration from the University of San Francisco in the United States in 2000. He is also a fellow member of The Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. Mr. Chau is currently the finance director of Winox Holdings Limited (stock code: 6838) and an independent non-executive director of each of Carpenter Tan Holdings Limited (stock code: 837), Ching Lee Holdings Limited (stock code: 3728) and China Water, which are listed on the main board of the Hong Kong Stock Exchange. Mr. Chau is also an independent non-executive director of Eco-Tek Holdings Limited (stock code: 8169) and was an independent non-executive director of Zhejiang Chang'an Renheng Technology Co., Ltd. (stock code: 8139) from 8 May 2014 to 11 May 2019, which are both listed on the GEM of the Hong Kong Stock Exchange. He joined the Group in 2019. He is also the chairman of the audit committee and nomination committee and a member of the remuneration committee of the Company.

* *For identification purposes only*

Mr. Chang Qing (常清), aged 63, was graduated from the Chinese Academy of Social Sciences* (中國社會科學院) with a doctorate degree in agricultural economics and management in 2001, graduated from Jilin University (吉林大學) with a bachelor's degree in economics in 1982 and a master's degree in national economics in 1985. Mr. Chang had successively served as a research assistant, a deputy research fellow and a research fellow of Development Research Center of the State Council (國務院發展研究中心) from 1985 to 2005 and the vice chairman of China Futures Association (中國期貨業協會) from 1999 to 2006. Mr. Chang has worked in the College of Economics and Management of China Agriculture University (中國農業大學經濟管理學院) since 2005. He has also served as the chairman of the board of Jinpeng International Futures Co., Ltd (金鵬期貨經紀有限公司) since 1993. Mr. Chang is currently an independent non-executive director of China Chengtong Development Group Limited (stock code: 217) and Honghua Group Limited (stock code 196), which are both listed on the main board of the Hong Kong Stock Exchange. He joined the Group in 2016. He is also the member of the audit committee and nomination committee of the Company.

Mr. Peng Yongzhen (彭永臻), aged 72, was graduated from Harbin Institute of Technology* (哈爾濱工業大學) (formerly known as Harbin University of Architecture and Engineering (哈爾濱建築大學), the same below) in June 1995 with a doctor degree in environmental engineering and was a senior visiting scholar in Gunma University (日本群馬大學) from October 1996 to April 1997. Mr. Peng previously held various positions in water supply and sewerage engineering major in the urban construction department of Harbin Institute of Technology* (哈爾濱工業大學), including the teaching assistant position from September 1976 to October 1978, the teaching assistant, lecturer and associate professor positions from December 1981 to September 1993, and the professor position from September 1993 to February 2000. Since 2000, he has been a chief professor of the environment engineering department, a professor, a tutor of doctoral candidates and the chief of the environmental engineering department and water pollution control research laboratory in Beijing University of Technology* (北京工業大學), Director of National Engineering Lab for Advanced Municipal Wastewater Treatment and Reuse Technology ("城鎮污水深度處理與資源化利用技術"國家工程實驗室) and the chief of Beijing Engineering Technology Research Center of Sewage Nitrogen and Phosphorus Removal* (北京市污水脱氮除磷處理工程技術研究中心) of Beijing University of Technology, concurrently.

He has long been engaged in the research of urban sewage disposal measures, of which some technological achievements have been massively applied into practice. Mr. Peng has earned diverse national-level titles and awards for his academic achievements, including without limitations National Role Model Lecturer* (全國模範教師) in 2007, National Outstanding Faculty* (國家教學名師) in 2009 and National Excellent Technical Personnel* (全國優秀科技工作者) in 2012. He was selected to be one of the first talents sponsored by National Special Support Plan for High-level Personnel* (國家高層次人才特殊支持計劃) in 2013. He was granted the Second Prize of National Prize for Progress in Science and Technology* (國家科技進步獎) in 2004, 2009 and 2012, respectively, and the First Prize of Beijing Municipal Prize for Progress in Science and Technology* (北京市科技進步獎) in 2012. Mr. Peng received a special allowance from China's State Council in 2000, and was appointed as member of Chinese Academy of Engineering (中國工程院) in 2015. He joined the Group in 2015. He is also the chairman of the remuneration committee and a member of the audit committee and nomination committee of the Company.

* *For identification purposes only*

SENIOR MANAGEMENT

The biographical details of the senior management of the Company during the year ended 31 December 2020 and up to the date of this annual report are set out below:

Mr. Zhou Wei (周偉), aged 41, was appointed as the chief financial officer of the Group on 9 April 2019. Mr. Zhou Wei graduated from Nanjing Audit University* (南京審計學院) located in Nanjing and obtained a bachelor degree in auditing. Mr. Zhou Wei is currently a certified tax agent of the People's Republic of China. From 2002 to 2007, he worked in several domestic and international accounting firms. In August 2007, Mr. Zhou Wei joined China Water and successively served as the chief financial officer of Huizhou Zhongshui Water Development Co., Ltd.* (惠州中水水務發展有限公司), a subsidiary of China Water), the vice general manager of the investment department of China Water, the general manager of Huizhou Dayawan Yiyuan Jingshui Co., Ltd.* (惠州大亞灣溢源淨水有限公司), a subsidiary of China Water), and the chief financial officers of Shenzhen Jinda Environment Holding Co. Ltd.* (深圳金達環境控股有限公司), a subsidiary of China Water) and Guangdong Xinsheng Environmental Protection Group Co., Ltd.* (廣東新晟環保集團有限公司), a subsidiary of China Water). Mr. Zhou Wei is experienced in financial management and investment and financing area.

* *For identification purposes only*

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Adapting and adhering to the recognised standards of corporate governance principles and practices has always been one of the top priorities of the Company. The Board believes that good corporate governance is one of the areas that lead to the success of the Company and in balancing the interests of Shareholders, customers and employees, and the Board is devoted to ongoing enhancements of the efficiency and effectiveness of such principles and practices.

During the year ended 31 December 2020, the Company has complied with all the applicable provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Group further strengthened the control over budget, risk, performance and responsibilities, optimised management approaches and strategies, improved supporting mechanism and enhanced control effectiveness and operational efficiency of the Group.

The Group enhanced overall control over target responsibilities and budget control, which was promoted and implemented within the entities under the Group as well as management level, and implemented the main body responsibility system through organic combination of the trinity to fully stimulate team members' initiative.

The Group also took initiative to enhance efforts in fund management, financial risk control, project investment decisions, legal risk control, information disclosure and maintenance of investor relationship to strive for more effective and transparent management in accordance with the CG Code.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS

The Board is responsible for leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performance. The Board has delegated to the chief executive officer, of which the Directors also undertake, and through him, to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

As at 31 December 2020 and up to the date of this annual report, the composition of the Board is set out below:

Executive Directors

Zhao Juanxian (alias, Zhao Junxian) (Co-Chairman)
Li Zhong (Co-Chairman)
Liu Yujie
Duan, Jerry Linnan

Independent non-executive Directors

Chau Kam Wing
Chang Qing
Peng Yongzhen

The Directors have no financial, business, family or other material/relevant relationships with each other.

During the year ended 31 December 2020, the Board at all time complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

A code provision of the CG Code requires Directors to disclose to the issuer the number and nature of offices held in public companies or organisations and other significant commitments as well as the nature of such companies or organisations and the time involved in such offices, each Director has agreed to disclose their commitments to the Company in a timely manner.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles and duties of the Chairman and the Chief Executive Officer have been clearly defined in writing and are carried out by different individuals in order to preserve independence and a balance of views and judgement.

With the support of the senior management, the Chairman is responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

As at 31 December 2020, Mr. Zhao Juanxian and Mr. Li Zhong were the Co-chairmen of the Company and Mr. Duan, Jerry Linnan was the Chief Executive Officer of the Company.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into service contract with the Company for an initial fixed term of three years and will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other.

Each of the independent non-executive directors has entered into service contract/letter of appointment with the Company for an initial fixed term of one year and will continue thereafter until terminated by not less than one month's notice in writing served by either party to the other.

In accordance with the articles of association of the Company (the "Articles of Association"), all Directors are subject to retirement by rotation at least once every three years and any new Director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by Shareholders at the first general meeting after his/her appointment or in case as an addition to the Board, the new Director shall hold office only until the next following annual general meeting of the Company and then be eligible for re-election.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

The Board is collectively responsible for performing the corporate governance duties and formalised the inclusion of the following corporate governance duties into the terms of reference of the Board:

a. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

b. to review and monitor the training and continuous professional development of Directors and senior management;

c. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

d. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

e. to review the Company's compliance with the CG Code and disclosure in the corporate governance report in the annual report of the Company.

The Board had reviewed and approved the corporate governance report contained in this annual report. The Board had also reviewed the Company's policies and practices on corporate governance and compliance with legal and regulatory requirements.

The Board had adopted a board diversity policy aiming to set out the approach to achieve the diversity of members of the Board to enhance the effectiveness of the Board. The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates of Board members will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

Each newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are continually updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for Directors will be arranged where necessary. Individual Directors also participated in the courses relating to the roles, functions and duties of a listed company director or further enhancement of their professional development by way of attending training courses or via online aids or reading relevant materials.

DIRECTORS' TRAINING

The Company is committed to arranging and funding suitable training to all Directors for their continuous professional development. All the Directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

During the year ended 31 December 2020, the Directors participated in the following continuous professional development:

Name of Directors	Attend training	Reading materials update on rules and regulations
Executive Directors		
Zhao Juanxian (alias, Zhao Junxian) (Co-Chairman)	✓	✓
Li Zhong (Co-Chairman)	✓	✓
Liu Yujie	✓	✓
Duan, Jerry Linnan (Chief Executive Officer)	✓	✓
Independent Non-executive Directors		
Chau Kam Wing	✓	✓
Chang Qing	✓	✓
Peng Yongzhen	✓	✓

BOARD MEETINGS

The Board is provided with relevant materials in relation to the matters brought before the meetings. Reasonable notices of meetings are given to the Directors and the Directors are encouraged to propose new items as any other business for discussion at the meetings. The Directors have separate access to the Company's senior management for information at all times and may seek independent professional advice at the Company's expenses, if necessary. Minutes are kept by the company secretary and are open for inspections by all Directors at any reasonable time. Procedures for convening meetings of the Board and Board committees and preparing minutes of the meetings have complied with the requirements of the Articles of Association and applicable rules and regulations.

The attendance records of each Director at the Board meetings and the general meetings during the year ended 31 December 2020 are set out below:

Name of Directors	Attendance/ Number of Board Meetings	Attendance/ Number of General Meetings
Executive Directors		
Zhao Juanxian (alias, Zhao Junxian) (Co-Chairman)	9/9	2/2
Li Zhong (Co-Chairman)	9/9	2/2
Liu Yujie	9/9	2/2
Duan, Jerry Linnan (Chief Executive Officer)	9/9	2/2
Independent Non-executive Directors		
Chau Kam Wing	9/9	2/2
Chang Qing	9/9	2/2
Peng Yongzhen	9/9	2/2

DELEGATION BY THE BOARD

The Board undertakes responsibility for decision making in major Company matters, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to its Chief Executive Officer and the senior management.

BOARD COMMITTEES

The Board has established three committees, namely, the nomination committee, the remuneration committee and the audit committee.

NOMINATION COMMITTEE

The Company has established a nomination committee (the "Nomination Committee") to make recommendations to the Board on the appointment or re- appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive. As at 31 December 2020, the Nomination Committee consisted of five members, comprising Mr. Chau Kam Wing (chairman), Mr. Zhao Juanxian (alias, Zhao Junxian), Mr. Li Zhong, Mr. Peng Yongzhen and Mr. Chang Qing.

The Nomination Committee reviewed the size, structure and composition of the Board to complement the Group's corporate strategy, and made recommendations to the Board on the appointment and re-appointment of Directors during the year ended 31 December 2020.

The Nomination Committee held one meeting during the year ended 31 December 2020 and the attendance records are set out below:

Name of Directors	Attendance/ Number of Meetings
Mr. Chau Kam Wing	1/1
Mr. Zhao Juanxian (alias, Zhao Junxian)	1/1
Mr. Li Zhong	1/1
Mr. Peng Yongzhen	1/1
Mr. Chang Qing	1/1

REMUNERATION COMMITTEE

The Company has established a remuneration committee (the "Remuneration Committee") to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objects and make recommendations to the Board on the remuneration package of individual executive Directors and senior management. As at 31 December 2020, the Remuneration Committee consisted of three members, namely Mr. Peng Yongzhen (chairman), Mr. Zhao Juanxian (alias, Zhao Junxian) and Mr. Chau Kam Wing.

During the year ended 31 December 2020, the Remuneration Committee reviewed the Directors' fees (including executive Directors and independent non-executive Directors) in consideration of the increasing level of duties and responsibilities and market conditions; and approval of the remuneration incentive structure of the Group as a whole taking consideration of factors such as salaries paid by comparable companies, time commitment and their responsibilities.

The Remuneration Committee held one meeting during the year ended 31 December 2020 and the attendance records are set out below:

Name of Directors	Attendance/ Number of Meetings
Mr. Peng Yongzhen	1/1
Mr. Zhao Juanxian (alias, Zhao Junxian)	1/1
Mr. Chau Kam Wing	1/1

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2020 are set out in Note 8 to the Consolidated Financial Statements.

The biographies of the senior management are disclosed in the section headed "***Directors and Senior Management***" in this annual report. Remuneration paid to the senior management (excluding the Directors) by bands for the year ended 31 December 2020 is set out below:

Remuneration bands	Number of individuals
HK$1,000,001 to HK$1,500,000	1

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") to assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems, oversee the audit process and perform other duties and responsibilities as assigned by the Board. As at 31 December 2020, the Audit Committee consisted of three independent non-executive Directors, being Mr. Chau Kam Wing (chairman), Mr. Peng Yongzhen and Mr. Chang Qing.

The Audit Committee has reviewed the annual results and annual report of the Group for the year ended 31 December 2020. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members of the Company.

During the year ended 31 December 2020, the Audit Committee discussed with the management of the Company about the internal controls and financial reporting matters, and reviewed the accounting principles and practices adopted by the Group and the effectiveness of the Group's internal control system. The Audit Committee also met with the external auditor to review the annual report of the Company for the year ended 31 December 2019 and the interim report of the Company for the six months ended 30 June 2020 and discuss about the annual audit planning of the Company for the year ended 31 December 2020.

The Audit Committee held two meetings during the year ended 31 December 2020 and the attendance records are set out below:

Name of Directors	Attendance/ Number of Meetings
Mr. Chau Kam Wing	2/2
Mr. Peng Yongzhen	2/2
Mr. Chang Qing	2/2

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2020. The Directors consider that the Group has adequate resources to continue in business for the foreseeable future and are not aware of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's consolidated financial statements, which are put to the Board for approval.

RISK MANAGEMENT AND INTERNAL CONTROL

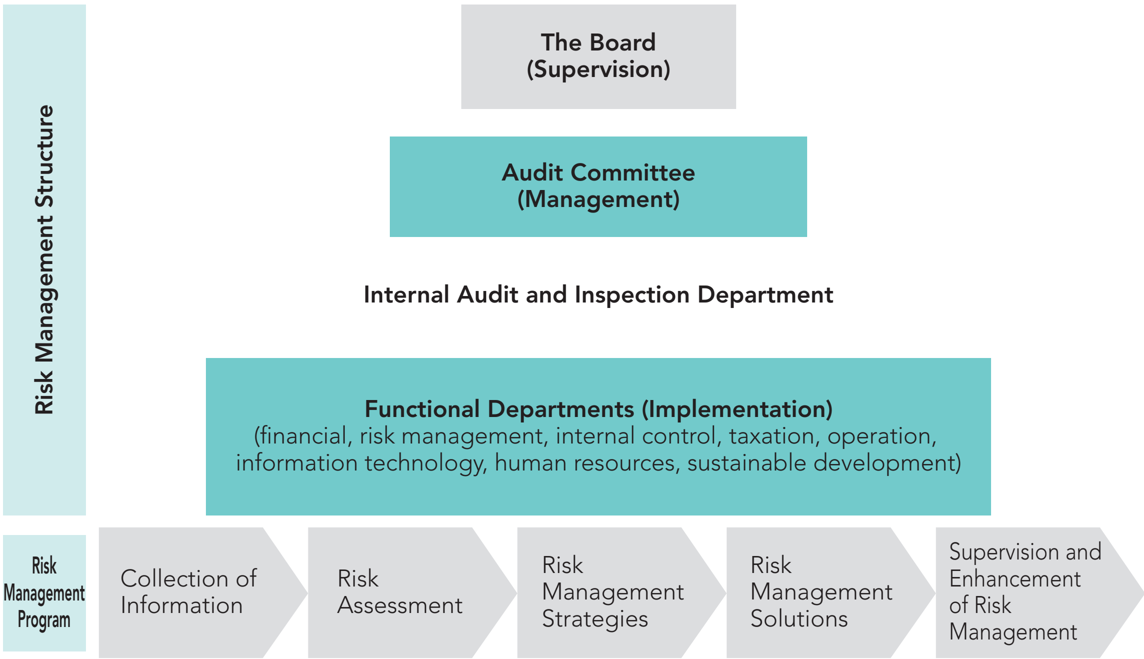
The Board is solely responsible for the risk management and internal control system to protect the interests of the Company and the Shareholders as a whole. To achieve its aim, the Board monitors and approves the strategies and policies of the Group's risk management and internal control systems. The purpose of the relevant strategies and policies is to evaluate and determine the nature and extent of risks to make it suitable for the Group's strategic objectives and risk endurance. The main target is to provide reasonable assurance against material misstatement or loss, rather than eliminate the risk of failure to achieve business objectives. To this end, management continues to allocate resources for an internal control and risk management system compatible with the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure in the operating system of the Group and in achieving business objectives by the Group.

The Board, through the Audit Committee, has continuously monitored and annually reviewed the effectiveness of risk management and internal control system of the Group and its subsidiaries, and is of the view that the existing risk management and internal control system is sufficient and effective. The review covered all material aspects with regard to control, including financial control, operational control and compliance control. The internal audit reports submitted to the Audit Committee by the Group also covered aspects of risk management and internal control. The Board is not aware of any significant areas of concern which may affect the Shareholders, and believes that the Group has fully complied with the code provisions on internal controls, including compliance with legal and regulatory requirements, as set forth in the CG Code. The Board, through the appraisal performed by the Audit Committee, reviewed the adequacy of resources, staff qualifications and experience, training programs received by the staff and budget of the Group's accounting, internal auditing and financial reporting function at the Board meeting. In light of the Group's nature of business and the recommendations on the Board's role in risk management, the Group has developed risk management system and policies, and established a risk control department, which is responsible for the Group's risk management, to communicate and assess the Group's risk profile and material risks, and track the progress of mitigation plans and initiatives of material risks and report on detailed examinations of specific risks as required.

RISK MANAGEMENT ORGANISATION SYSTEM

The Group has established a comprehensive organization structure to manage the risks encountered by the Group.

The risk management structure comprises two key factors: risk management structure and risk management program.



1. RISK MANAGEMENT STRUCTURE

REGULATORY ORGANISATION	**The Board is responsible for the effectiveness of the overall risk management** ▶ determine the overall objective, risk appetites and risk tolerance for corporate risk management, and approve risk management strategies, major risk mitigation solutions and risk management measures; ▶ understand and manage each major risk faced by the enterprise and its existing management situations, and make effective risks control decisions; approve the decision-making standards or mechanisms regarding major decisions, major risks, major events and major business processes; ▶ approve risk management report related to major decisions; and ▶ approve the annual comprehensive risk management report.
RISK MANAGEMENT ORGANISATION	**The Audit Committee, the highest risk management organisation in the Company, is accountable to the Board** ▶ review the establishment and planning of the comprehensive risk management system; ▶ review the proposal on the structure of the risk management organisations and their responsibilities; ▶ review the annual comprehensive risk management report and submit to the Board; ▶ review risk management strategies, major risk management solutions and risk management measures; and ▶ review the annual risk management work plan.
LEADING RISK MANAGEMENT AND SUPPORTING ORGANISATION	**Internal Audit and Inspection Department is the leading risk management and supporting organisation** ▶ responsible for the establishment and amendment of the Company's risk management policies and mechanisms; ▶ establish anti-corruption mechanisms, and check for possible corruption conduct during the internal audit process, and make suggestions for dealing with corruption conduct; ▶ formulate annual risk management work plan and submit to the Board and the Audit Committee for their review; ▶ regularly collect first-hand information regarding risk management, carry out risk assessment and discuss major risks faced by the Company; ▶ assess the soundness, reasonability and the effectiveness in implementation of the risk management system, and review the annual comprehensive risk management report, risk management proposals and day-to-day risk management solutions; ▶ accept reports from employees and cooperating organizations, organize investigations and provide handling advices, and investigate and deal with people and matters that violate Company and legal regulations; ▶ assist the Group in carrying out risk management work, and formulate internal auditing plan in accordance with the result of risk assessment; and ▶ test the effectiveness of risk management through implementing accounting methods like walk through test and analytical review on its audit.
RISK IMPLEMENTATION ORGANISATION	**Each functional department of the Company shall be under the coordination and supervision by the Internal Audit and Inspection Department** ▶ implement the basic procedures in risk management; ▶ research and propose decision-making standards or mechanisms regarding major decisions, major risks, major events and major business processes of the functional department; ▶ research and propose risk assessment report of the functional department; properly carry out risk management work of the functional department; and ▶ establish comprehensive risk management procedures for the functional department.

2. RISK MANAGEMENT PROGRAM

The Group has established a comprehensive risk management program which is led and implemented by the internal audit and inspection department. The risk management program is as follows:

(1) to collect first-hand information for risk management;

(2) to analyse and assess risks;

(3) to propose risk management strategies and formulate risk management solutions; and

(4) to supervise the implementation of risk management works performed by each business units and verify the overall appraisal.

Key risk management program of the Group

Risk Management Program	Collection of Information	Risk Assessment	Risk Management Strategies	Risk Management Solutions	Supervision and Enhancement of Risk Management
Designed Functions	Each department collects first-hand information for risk management	Organise meetings to analyse and assess risks	Arrange discussion between the management and each risk unit and propose risk strategies	Arrange discussion between the management and each risk unit and propose risk management solutions	Supervise the implementation of risk management works and verify the overall appraisal

SUPERVISION AND ENHANCEMENT OF RISK MANAGEMENT

The Group has set up basic procedures that cover the whole process of risk management, connecting the channels of communication of risk management information along the reporting lines and among various departments and business units to ensure timely, accurate and complete sharing of information and this has laid the foundation for the supervision and enhancement of risk management.

The senior management of the Group, focusing on material risks, material matters and material decisions, important management matters and the business flow, supervises the work relating to the first-hand information collection for risk management, risk assessment, risk management strategies, critical control activities and the implementation of risk management solutions. The internal audit and inspection department carries out an annual review and examination on the implementation of the works on risk management by different departments and business units and its effectiveness for the year, assesses risk management strategies and evaluates inter-departmental risk management solutions and business units' risk management solutions, proposes suggestions for adjustments and recommendations for improvements and issues evaluation and recommendation reports which will be sent to the relevant senior management in a timely manner.

MATERIAL RISKS THE GROUP MAY FACE

In 2020, during the course of business planning, we identified the material risks that the Group may face which include risk of construction progress, risk of breach of agreement by governments, risk in relation to corporate culture, risk of post construction audit and price fixing and risk in relation to appraisal management.

The potential risk of construction progress arises from delays in completion of construction due to improper design, shortages of equipment or materials and other factors that are beyond the Group's control. The Group's corresponding measures on such risks include enhancement of construction progress review and inspection mechanism, establishment of effective and efficient information collection and responsive system and enhancement of project materials management.

The potential risk of breach of agreement by governments arises from deferment or suspension of project and economic losses due to fiscal stress of local government and unilateral changes in project requirements. The Group's corresponding measures on such risk include reconciliation of account balances with and obtaining of confirmation from local governments regularly.

The potential risk in relation to corporate culture arises from the inability to promote corporate values due to disconnection between corporate culture and company strategies; lack of corporate culture activities; and lack of promotion and assessment of corporate culture. The Group's corresponding measures on such risk include enhancing promotion of corporate culture; incorporating ethical conducts into employee's appraisal system and conduct employee's satisfaction survey.

The potential risk of post construction audit and price fixing arises from economic losses where post construction audits are not timely conducted; and due to unreasonable pricing. The Group's corresponding measures on such risk include adopting post construction audit procedures and reviewing post construction audit and pricing regularly.

The potential risk in relation to appraisal management arises from the inability of appraisal system to achieve its motivation purpose due to defects in appraisal system; appraisal indicators are not in line with corporate target; and improper execution of appraisal system. The Group's measures to mitigate such risk include adopting sound appraisal system, reasonable appraisal targets and standards.

MANAGEMENT OF INSIDE INFORMATION

The Group has formulated a set of program of continuing obligations on information management and disclosure to formally regulate the monitoring of inside information that arises during the course of its current business development and has established the practice of delivering such information to the Shareholders, the media and analysts. When handling the relevant matters, the Group will comply with "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission and the related provisions issued by regulatory organisations and the Group has clearly stated that the unauthorised use of confidential or inside information is prohibited. The Group has set up a system of answering enquiries from external parties about the Group's affairs, and will appoint and authorise the senior executives of the Group to act as the Company's spokesperson in response to enquiries on a particular area.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about its reporting responsibilities for the Consolidated Financial Statements is set out in the "***Independent Auditor's Report***" on pages 52 to 57.

During the year ended 31 December 2020, the remuneration paid/payable to the Company's independent auditor, Ernst & Young, is set out below:

	RMB'000
Annual audit services	2,850
Non-audit services	750
Total fees	3,600

Non-audit services included internal control advisory services and environmental, social and governance advisory services. The Audit Committee is satisfied that the non-audit services did not affect the independence of the external auditor.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable Shareholders and investors to make the best investment decisions. The general meetings of the Company provide a forum for face-to face communication between the Board and the Shareholders dialogue. The Chairman as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available to answer questions at general meetings.

To promote effective communication, the Company maintains on its website up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information, which are posted and are available for public access.

CONSTITUTIONAL DOCUMENTS

The Company has not amended its constitutional documents during the year ended 31 December 2020.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at Shareholders' meetings, including the election of individual Directors.

All resolutions put forward at Shareholders' meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Hong Kong Stock Exchange after each general meeting.

Shareholders who intend to put forward their enquiries to the Board could send their enquiries to the Company's principal place of business in Hong Kong or the headquarters in the PRC or by email to kangda@kangdaep.com. Shareholders can contact Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar of the Company, if they have any enquiries about their shareholdings and entitlements to dividend.

CONVENING OF EXTRAORDINARY GENERAL MEETINGS AND PUTTING FORWARD PROPOSALS

Pursuant to the Articles of Association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

COMPANY SECRETARY

On 20 January 2020, Mr. Lie Chi Wing resigned as the company secretary of the Company and Mr. Wong Wan Sing was appointed as the company secretary of the Company. During the year ended 31 December 2020, the company secretaries of the Company have undertaken no less than 15 hours of relevant professional training.

REPORT OF DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of the principal subsidiaries are set out in note 1 to the consolidated financial statements.

BUSINESS REVIEW

Business review of the Group is set out in "Business Review" section of "Management Discussion and Analysis".

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities, which are extracted from the annual audited reports, are set out on page 170 and page 171 of this annual report. This summary does not form part of the audited consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2020 and its financial position at that date are set out on the financial statements on pages 58 to 61 of this annual report.

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

DIVIDEND POLICY

The declaration, form, frequency and amount of any dividend payout of the Company must be in accordance with relevant laws, rules and regulations and subject to the Articles of Association. Subject to compliance with applicable laws, rules, regulations and the Articles of Association, in deciding whether to propose any dividend payout, the Board will take into account, among other things, the financial results, the earnings and distributable reserves, the operations and liquidity requirements, the debt ratio and possible effects on the credit lines, and the current and future development plans of the Company.

CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from Friday, 4 June 2021 to Wednesday, 9 June 2021, both days inclusive, during which period no transfer of the share(s) of the Company (the "Shares") can be registered. The record date for entitlement to attend and vote at the forthcoming annual general meeting of the Company (the "Annual General Meeting") is Wednesday, 9 June 2021. In order to be qualified for attending and voting at the Annual General Meeting, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 3 June 2021.

PRINCIPAL RISKS AND UNCERTAINTIES

The political, economic and social conditions in China are experiencing changes and reforms, which may adversely affect our business, growth strategies, operating results and financial condition.

Demand for the Group's services and business, financial condition, results of operations and prospects may be adversely affected by the following factors:

- political instability or changes in social conditions in China;
- changes in laws, regulations and administrative directives;
- measures which may be introduced to control inflation or deflation; and
- changes in the rate or method of taxation.

These factors are affected by a number of variables which are beyond control.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group has implemented internal recycling program on a continuous basis for consumable goods such as toner cartridges and paper to minimise the operational impact on the environment and natural resources. Recycled papers have also been used as key printing materials for internal use.

The Group has also implemented energy saving practices in offices and the Group's wastewater plants to enhance the efficiency of electricity consumption.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2020 are set out in note 12 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2020 are set out in note 30 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law") where the Company was incorporated, which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2020 are set out in note 43 to the consolidated financial statements and in the consolidated statement of changes in equity on page 62 and page 63 of this annual report respectively.

As at 31 December 2020, the Company's reserves available for distribution, calculated in accordance with the provisions of Companies Law, amounted to approximately RMB1,715.0 million (2019: RMB1,721.6 million).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, the Group's five largest suppliers accounted for 18.0% of the Group's total purchases and purchase from the Group's largest supplier included therein amounted to 6.1% of the total purchases for the year.

For the year ended 31 December 2020, the Group's sales to its five largest customers accounted for 36.7% of the Group's total sales and sales to the largest customer included therein amounted to 15.8% of the total sales for the year.

Jiangxi Silver Dragon Water Environment Construction Co., Ltd.* (江西銀龍水環境建設有限責任公司) ("Jiangxi Silver Dragon") is one of the five largest suppliers of the Group during the year ended 31 December 2020. Jiangxi Silver Dragon is a non-wholly owned subsidiary of China Water, a substantial shareholder of the Company. Mr. Li Zhong, Ms. Liu Yujie and Mr. Duan, Jerry Linnan, the executive Directors of the Company, are also the executive directors of China Water and Mr. Chau Kam Wing, an independent non-executive Director of the Company, is also an independent non-executive director of China Water. Further details are set out in the section "Connected Transaction" below. Save as disclosed, none of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

BANK LOANS AND CORPORATE BOND

Particulars of interest-bearing bank and other borrowings and corporate bonds of the Group as at 31 December 2020 are set out in note 28 and note 29 to the consolidated financial statements.

CAPITAL MANAGEMENT

Details of the Group's policies on capital management are set out in note 41 to the consolidated financial statements.

SIGNIFICANT INVESTMENTS HELD

For the year ended 31 December 2020, the Group did not hold any material investments in the equity interest of other companies.

MATERIAL INVESTMENT AND FUTURE PLANS OF CAPITAL ASSETS

As of 31 December 2020, Group had no material investment and other plans for capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

For the year ended 31 December 2020, the Group did not have any material acquisitions or disposals of subsidiaries and associates.

* *For identification purposes only*

RELATIONSHIPS WITH KEY STAKEHOLDERS EMPLOYEES

Employees are regarded as the most important and valuable assets of the Group. The objective of the Group's human resource management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement.

CUSTOMERS AND SUPPLIERS

The Group's customers are generally municipal, district or county level governments or their designees in China. We typically enter into agreements with the Group's customers to provide wastewater treatment and other services on a project-by-project basis.

The Group's business is built on a customer-oriented culture, and are focused on establishing relationships with district or county level governments or their designees in China. The Group also understands that it is important to maintain good relationship with its suppliers and customers to fulfil its immediate and long-term goals. To maintain its market competitiveness within the industry, the Group aims at delivering constantly high standards of quality in the service to its customers.

SHAREHOLDERS

One of the corporate goals of the Group is to enhance corporate value to Shareholders. The Group is poised to foster business developments for achieving the sustainability of earnings growth and rewarding Shareholders.

DIRECTORS

The Directors during the year ended 31 December 2020 and up to the date of this annual report were:

Executive Directors:

Zhao Juanxian (alias, Zhao Junxian) (Co-Chairman)
Li Zhong (Co-Chairman)
Liu Yujie
Duan, Jerry Linnan (Chief Executive Officer)

Independent non-executive Directors:

Chau Kam Wing
Chang Qing
Peng Yongzhen

In accordance with the Articles of Association, Mr. Zhao Juanxian, Mr. Duan, Jerry Linnan and Mr. Chang Qing will retire at the Annual General Meeting, and being eligible, will offer themselves for re-election.

Details of the Directors to be re-elected at the Annual General Meeting are set out in the circular to the Shareholders.

Biographical details of the Directors and senior management of the Group are set out on pages 17 to 20 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into service contract with the Company for an initial fixed term of three years and will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other.

Each of the independent non-executive directors has entered into service contract/letter of appointment with the Company for an initial fixed term of one year and will continue thereafter until terminated by not less than one month's notice in writing served by either party to the other.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN TRANSACTIONS OF SIGNIFICANCE, ARRANGEMENTS OR CONTRACTS

Save as disclosed elsewhere in this annual report, no Director or his/her connected party had a material interest, either directly or indirectly, in any transactions of significance, arrangements or contracts to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2020.

PERMITTED INDEMNITY PROVISION

According to the Articles of Association, every Director or other officer of the Company shall be entitled to be indemnified out of the assets and profits of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2020.

SHARE OPTION SCHEME

The Company has adopted the share option scheme (the "Share Option Scheme") on 14 June 2014 (the "Adoption Date"). The following is a summary of principal terms of the Share Option Scheme:

Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to give the Eligible Persons (as defined in the following paragraph) an opportunity to have a personal stake in the Company and help motivate them to optimise their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executives (as defined below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Who may join in the Share Option Scheme

The Board may, at its absolute discretion, grant options ("Option(s)") to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

(a) any executive Director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group ("Executive"), any full-time or part-time employee, or person for the time being seconded to work full-time or part-time for any member of the Group ("Employee");

(b) a Director or proposed Director (including an independent non-executive Director) of any member of the Group;

(c) a direct or indirect shareholder of any member of the Group;

(d) a supplier of goods or services to any member of the Group;

(e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;

(f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and

(g) an associate of any of the persons referred to in paragraphs (a) to (f) above (the person referred above are the "Eligible Persons").

Maximum number of Shares

A resolution was passed by the shareholders of the Company at the annual general meeting of the Company on 10 June 2020, approving, inter alia, to refresh the limit of the Share Option Scheme to 213,973,500 shares of the Company, representing 10% of the issued shares of the Company as at 10 June 2020. For further details please refer to the Company's announcement dated 10 June 2020.

Maximum entitlement of each participant

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period exceeds 1% of the Company's issued share capital from time to time.

Where any further grant of Options to such Eligible Person would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by the Shareholders in general meeting with such Eligible Person and his or her associates abstaining from voting.

Offer and grant of Options

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Hong Kong Stock Exchange or an integral multiple thereof).

Minimum holding period, vesting and performance target

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of any of Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before Option can be exercised.

Amount payable on acceptance of the option and the payment period

To accept the grant of an Option, HK$1 as consideration for the grant of an Option must be received by the Company from the grantee within 28 days from the date on which the board resolution approves the grant of Options.

Subscription price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

(a) The nominal value of a Share;

(b) The closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotations sheet on the offer date; and

(c) The average closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotations for the 5 business days (as defined in the Listing Rules) immediately preceding the offer date.

The remaining life of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years.

Set out below are the details of the movements of Options granted and accepted under the Share Option Scheme during the year ended 31 December 2020:

			Number of options						
Name of grantee	Date of grant	Exercise price per share (HK$)	Outstanding as at 1 January 2020	Granted and accepted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2020	Exercise period	Weighted average closing price of shares immediately before the dates of exercise (HK$)
Directors									
Li Zhong	13/11/2019	0.76	10,000,000	–	(10,000,000)	–	–	13/11/2019–13/5/2020	0.81
Liu Yujie	13/11/2019	0.76	10,000,000	–	(10,000,000)	–	–	13/11/2019–13/5/2020	0.79
Duan, Jerry Linnan (Chief Executive Officer)	13/11/2019	0.76	10,000,000	–	(10,000,000)	–	–	13/11/2019–13/5/2020	0.82
Chau Kam Wing	13/11/2019	0.76	2,000,000	–	(2,000,000)	–	–	13/11/2019–13/5/2020	0.78
Chang Qing	13/11/2019	0.76	2,000,000	–	(2,000,000)	–	–	13/11/2019–13/5/2020	0.77
Peng Yongzhen	13/11/2019	0.76	2,000,000	–	(2,000,000)	–	–	13/11/2019–13/5/2020	0.81
Employees under continuous contract									
Zhou Wei (Chief Financial Officer)	13/11/2019	0.76	6,000,000	–	(6,000,000)	–	–	13/11/2019–13/5/2020	0.82
Other employees	13/11/2019	0.76	53,400,000		(49,250,000)	(4,150,000)	–	13/11/2019–13/5/2020	0.82
Subtotal			59,400,000		(55,250,000)	(4,150,000)	–		
Other participants	13/11/2019	0.76	18,100,000	–	(16,100,000)	(2,000,000)	–	13/11/2019–13/5/2020	0.82
Total			113,500,000	–	(107,350,000)	(6,150,000)	–		

Note: The closing price immediately before the date on which the share options were granted was HK$0.75.

During the year ended 31 December 2020, 107,350,000 share options were exercised at the exercise price of HK$0.76 per share, resulting in the issue of 107,350,000 ordinary shares of HK$0.01 each of the Company for a total cash consideration of HK$81,586,000. The premium received was credited to the share premium account. During the year ended 31 December 2020, 6,150,000 share options had lapsed. As at 31 December 2020, no share option was outstanding under the Share Option Scheme.

The Directors have established the values of the share options granted during the year, calculated using binomial model as at the date of grant of the share options.

The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

EMOLUMENT POLICY

The Remuneration Committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five highest paid individuals are set out in notes 8 and 9 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2020, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (i) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of issued share capital of the Company
Mr. Zhao Juanxian (alias, Zhao Junxian)[1]	Person acting in concert (long position)	546,728,004	25.56%
Mr. Li Zhong	Beneficial owner (long position)	10,000,000	0.47%
Ms. Liu Yujie	Beneficial owner (long position)	10,000,000	0.47%
Mr. Duan, Jerry Linnan	Beneficial owner (long position)	10,000,000	0.47%
Mr. Chau Kam Wing	Beneficial owner (long position)	2,000,000	0.09%
Mr. Chang Qing	Beneficial owner (long position)	2,000,000	0.09%
Mr. Peng Yongzhen	Beneficial owner (long position)	2,000,000	0.09%

Note:

(1) By virtue of Mr. Zhao Juanxian acting in concert with Mr. Zhao Sizhen, being the son of Mr. Zhao Juanxian, under the SFO, Mr. Zhao Juanxian is deemed to be interested in Mr. Zhao Sizhen's interests in the Company.

Save as disclosed, as at 31 December 2020, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the year ended 31 December 2020 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2020, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of Interest	Number of Shares/ Underlying Shares held	Percentage of Issued Share Capital of the Company
China Water Affairs Group Limited[(1)(5)]	Interest of controlled corporation (long position)	953,119,996	44.54%
Sharp Profit Investments Limited ("Sharp Profit")[(1)(5)]	Beneficial owner (long position)	953,119,996	44.54%
Mr. Zhao Sizhen[(2)]	Interest of controlled corporation (long position)	543,828,004	25.42%
	Beneficial owner (long position)	2,900,000	0.14%
Kangda Holdings Company Limited[(3)]	Beneficial owner (long position)	543,828,004	25.42%
Baring Private Equity Asia V Holding[(5)] Limited ("BPEA V")[(4)(5)]	Beneficial owner (long position)	344,129,996	16.08%
	Beneficial owner (short position)	344,129,996	16.08%
The Baring Asia Private Equity Fund V, L.P.[(4)(5)]	Interest of controlled corporation (long position)	344,129,996	16.08%
	Interest of controlled corporation (short position)	344,129,996	16.08%
Baring Private Equity Asia GP V, L.P.[(4)(5)]	Interest of controlled corporation (long position)	344,129,996	16.08%
	Interest of controlled corporation (short position)	344,129,996	16.08%
Baring Private Equity Asia GP V Limited[(4)(5)]	Interest of controlled corporation (long position)	344,129,996	16.08%
	Interest of controlled corporation (short position)	344,129,996	16.08%
Mr. Jean Eric Salata[(4)(5)]	Interest of controlled corporation (long position)	344,129,996	16.08%
	Interest of controlled corporation (short position)	344,129,996	16.08%

Notes:

(1) Sharp Profit is wholly owned by China Water Affairs Group Limited. China Water Affairs Group Limited is therefore deemed to be interested in Sharp Profit's interests in the Company under the SFO.

(2) By virtue of Mr. Zhao Juanxian acting in concert with Mr. Zhao Sizhen, under the SFO, Mr. Zhao Juanxian is deemed to be interested in Mr. Zhao Sizhen's interests in the Company.

(3) Kangda Holdings Company Limited is wholly-owned and controlled by Mr. Zhao Sizhen and Mr. Zhao Sizhen is therefore deemed to be interested in the shares held by Kangda Holdings Company Limited under the SFO.

(4) BPEA V is held as to approximately 99.35% by The Baring Asia Private Equity Fund V, L.P. Baring Private Equity Asia GP V, L.P., is the general partner of The Baring Asia Private Equity Fund V, L.P. Mr. Jean Eric Salata is the sole shareholder of Baring Private Equity Asia GP V Limited, the general partner of Baring Private Equity Asia GP V, L.P. Each of The Baring Asia Private Equity Fund V, L.P., Baring Private Equity Asia GP V, L.P., Baring Private Equity Asia GP V Limited and Mr. Jean Eric Salata is deemed to be interested in BPEA V's interests in the Company. Mr. Jean Eric Salata disclaims beneficial ownership of such interests, other than to the extent of his economic interest in such entities.

(5) On 8 May 2020, BPEA V issued exchangeable bonds with principal amount of HK$361,336,495.8 to Sharp Profit ("Exchangeable Bonds"), which entitled the holder of the Exchangeable Bonds to exchange for 344,129,996 shares of the Company (at the initial exchange price of HK1.05 per share of the Company) beneficially owned by BPEA V. As at 31 December 2020, Sharp Profit beneficially owned 608,990,000 shares of the Company and is the holder of the Exchangeable Bonds with principal amount of HK$361,336,495.8 which are exchangeable into 344,129,996 shares of the Company beneficially owned by BPEA V.

Save as disclosed above, and as at 31 December 2020, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, as at 31 December 2020, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

CONNECTED TRANSACTION

On 28 February 2020, Suihua Kangda Environmental Protection Water Co., Ltd.* (綏化康達環保水務有限公司) ("Suihua Kangda"), an indirectly wholly-owned subsidiary of the Company, and Jiangxi Silver Dragon entered into a construction contract, pursuant to which, Jiangxi Silver Dragon agreed to undertake the civil works, construction and installation works under the upgrading and reconstruction project of the wastewater treatment plant at Suihua, Heilongjiang Province. As Jiangxi Silver Dragon is a 74.76% non-wholly owned subsidiary of China Water, a substantial shareholder of the Company, Jiangxi Silver Dragon is a connected person of the Company. Accordingly, the transaction between Suihua Kangda and Jiangxi Silver Dragon constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, and the Company has complied with the disclosure requirements in accordance with the Listing Rules.

On 25 September 2020, Kangda Investment (Hong Kong) Company Limited ("Kangda Investment (Hong Kong)"), an indirectly wholly-owned subsidiary of the Company, entered into a framework construction services agreement (the "Construction Services Agreement") with Jiangxi Silver Dragon, pursuant to which, the parties agreed that Jiangxi Silver Dragon may be selected to provided civil works, construction, installation works and supply of equipment for projects of the Group relating to the construction, upgrading, reconstruction and expansion of wastewater treatment facilities through a tender process in compliance with the applicable laws and regulations in the PRC. The term of the Construction Services Agreement commenced from the date of the Construction Services Agreement and ending on 31 December 2022. The transactions in relation to the Construction Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules, and the Company's independent shareholders approved the continuing connected transactions in relation to the Construction Service Agreement in the extraordinary general meeting of the Company held on 16 November 2020. The annual caps under the Construction Services Agreement for the period commenced from the date of the Construction Services Agreement and ended on 31 December 2020 and years ending 31 December 2021 and 2022 are RMB180 million, RMB300 million and RMB300 million, respectively.

On 28 March 2019, Chongqing Taiko & Kangda Environmental Protection Technology Co., Ltd.* (重慶大晃康達環保技術有限公司) ("Chongqing Taiko") and Chongqing Kangda entered into an equipment purchase framework agreement, pursuant to which, Chongqing Kangda agreed to purchase and Chongqing Taiko agreed to sell various types of wastewater treatment equipment from time to time for a term ending 31 December 2020 with annual caps of RMB30 million and RMB25 million for the financial years 2019 and 2020, respectively. As Chongqing Taiko was held indirectly as to 40% by Chongqing Kangte, which was then held by Mr. Zhao Juanxian, who served as an executive Director, Co-chairman of the Board and was a major Shareholder of the Company, and Mr. Gu Weiping (on behalf of Mr. Zhao Juanxian), who served as a former director of the Company resigned on 4 April 2019, as to 98% and 2%, respectively, Chongqing Taiko is deemed a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions between the Group and Chongqing Taiko in relation to the equipment purchase framework agreement constitute continuing connected transactions of the Company under the Listing Rules, and the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

* *For identification purposes only*

As set out in note 38 to the consolidated financial statements, certain bank borrowings of the Group were secured by Mr. Zhao Juanxian, which constitute continuing connected transactions under Chapter 14A of the Listing Rules. However, pursuant to Rule 14A.90 of the Listing Rules, as the guarantees provided by Mr. Zhao Juanxian were conducted on normal commercial terms and not secured by the assets of the Group, the guarantees provided by Mr. Zhao Juanxian set out in note 38 to the consolidated financial statements are fully exempted from the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.09 of the Listing Rules, as Huizhou Kangda Yingzhihuang Water Co., Ltd.* (惠州康達英之皇水務有限公司), Pingdingshan City Bay Water Treatment Co., Ltd.* (平頂山市海灣水務有限公司), Zhengzhou Xinzhongzhou Water Co., Ltd.* (鄭州新中洲水務有限公司) and Xinzheng Xinkang Water Co., Ltd.* (新鄭新康水務有限公司) (in aggregate), Jiaoling Kangda Environmental Governance Co., Ltd.* (蕉嶺康達環境治理有限公司), Weihai Kangda Ecological Environment Treatment Co., Ltd.* (威海康達生態環境綜合治理有限公司), Shenyang Jinhai Kangda Environmental Protection Water Co., Ltd.* (瀋陽近海康達環保水務有限公司) and Jilin Kangda Environmental Protection Co., Ltd.* (吉林康達環保有限公司) are insignificant subsidiaries of the Group, the related party transactions between the Group and their respective non-controlling shareholders set out in note 38 to the consolidated financial statements do not constitute connected transactions or continuing connected transactions under the Listing Rules.

Save as disclosed above, the other transactions set in note 38 to the consolidated financial statements either do not constitute connected transactions or continuing connected transactions of the Company or are exempted from the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

* *For identification purposes only*

CONFIRMATION FROM INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDITORS

The independent non-executive Directors have reviewed the above continuing connected transactions of the Group and have confirmed that these transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreement governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditors of the Company have reported to the Directors that nothing has come to their attention that causes the auditors to believe that, during the year ended 31 December 2020:

(i) the above continuing connected transactions have not been approved by the Board;

(ii) the above continuing connected transactions that involve provision of goods or services by the Group, were not, in all material respects, in accordance with the pricing policies of the Company;

(iii) the above continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreement governing such transactions; and

(iv) the respective cap amounts set out for the relevant agreement referred to above have been exceeded.

POST BALANCE SHEET EVENTS

The material post balance sheet events are disclosed in note 42 to the consolidated financial statements in this report.

AUDIT COMMITTEE

The Audit Committee had reviewed together with the management and independent auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2020.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code contained in the Listing Rules. Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with such code of conduct during year ended 31 December 2020.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders of the Company and to enhance corporate value and accountability. During the year ended 31 December 2020, the Company has complied with all the applicable provisions of the CG Code as set out in Appendix 14 to the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and permitted under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), are held by the public at all times during the year ended 31 December 2020 and up to the date of this report.

AUDITOR

Ernst & Young has acted as auditor of the Company for the year ended 31 December 2020.

Ernst & Young shall retire at the Annual General Meeting and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditor of the Company will be proposed at the Annual General Meeting.

On behalf of the Board
Li Zhong
Co-Chairman

Hong Kong, 25 March 2021

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Kangda International Environmental Company Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Kangda International Environmental Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 58 to 169, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") 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 International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board ("IAASB"). 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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Provision for impairment of trade receivables and financial receivables	
Trade receivables and financial receivables were significant to the consolidated financial statements and the majority of the receivables were generated from service concession arrangements, engineering procurement construction ("EPC") contracts, and build-transfer contracts. Expected credit losses ("ECLs") allowances for trade receivables are made based on the assessment of the recoverability of receivables due from customers. The Group is required to regularly assess the recoverability of its trade receivables and financial receivables. This involves significant judgement and estimation as the ECLs allowances must reflect information about past events, current conditions and forecasts of future conditions. Relevant disclosures are included in note 2.4 summary of significant accounting policies — "impairment of financial assets", note 2.5 significant accounting judgements and estimates — estimation uncertainty — "Provision for expected credit losses on trade receivables, financial receivables and contract assets", note 19 "financial receivables", and note 21 "trade and bills receivables" to the consolidated financial statements.	Our procedures to assess the recoverability of trade receivables and financial receivables included, among others, obtaining confirmations of trade receivables and financial receivables, examining evidence of collection of trade receivables and financial receivables after the year end, recalculating the ageing analysis by customers, examining the Group's assessment of the customers' financial circumstances and ability to repay the debt, comparing the Group's provisioning rates against historical collection data, and considering the customers' historical payment habits along with other macroeconomic information and other reasonable and supportable forward-looking information. We also assessed ECLs allowances model and checked the calculations. In addition, we evaluated the adequacy of the disclosures regarding the ECLs allowances for trade receivables and financial receivables.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Recognition and measurement of the contract revenue for service concession arrangements	
The Group engages in certain service concession arrangements under the terms of Build-Operate- Transfer ("BOT") in which the Group carries out the construction work of municipal infrastructure for certain governmental authorities or their designees (the "Grantors") and receives in return the rights to operate municipal infrastructure concerned in accordance with the pre-established conditions set by the Grantors. The measurement of revenue for service concession arrangements which is accounted for under IFRIC 12 *Service Concession Arrangements* involves significant management judgements and estimates including determination of applicable accounting model, estimation of the future guaranteed receipts, prevailing market rate of construction gross margins, and discount rates as used in the valuation process. Relevant disclosures are included in note 2.4 summary of significant accounting policies — "service concession arrangements", note 2.5 significant accounting judgements and estimates — judgements — "accounting for service concession arrangements" and "percentage of completion of construction services", note 4 "revenue" and note 19 "financial receivables" to the consolidated financial statements.	We reviewed the contract terms of the service concession arrangements and assessed the accounting model adopted and the future guaranteed receipts. We evaluated the competency and objectivity of the external appraiser engaged by management to assist the determination of the gross margin for construction service and discount rates. We also evaluated the basis and assumptions in the valuation and performed a comparison of the inputs used in the valuation against external market data. In addition, we involved our internal valuation specialists to assist us in evaluating the gross margin for construction service and the discount rates. We reviewed the methods and assumptions adopted by management in determining the total budgeted costs. We checked the relevant supporting documents for actual costs on a sampling basis. We also performed cut-off testing procedures to check whether material costs had been recognised in the appropriate accounting periods. We also assessed the adequacy of the relevant disclosures.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises 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 THE DIRECTORS 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 IFRSs issued by the IASB 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made 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 ISAs 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 ISAs, we exercise professional judgement 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.

- 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 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

We also provide the Audit Committee 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, 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 Yim Chi Hung, Henry.

Ernst & Young
Certified Public Accountants
Hong Kong

25 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	4	**3,332,432**	2,815,203
Cost of sales		**(2,006,795)**	(1,652,600)
Gross profit		**1,325,637**	1,162,603
Other income and gains	5	**107,157**	182,028
Selling and distribution expenses		**(2,530)**	(4,958)
Administrative expenses		**(217,593)**	(243,769)
Other expenses		**(35,902)**	(30,354)
Finance costs	7	**(561,781)**	(557,541)
Share of profits and losses of:			
Associates		**(2,688)**	1,401
Joint ventures		**(4,761)**	431
PROFIT BEFORE TAX	6	**607,539**	509,841
Income tax expense	10	**(137,282)**	(125,770)
PROFIT FOR THE YEAR		**470,257**	384,071
Attributable to:			
Owners of the parent	11	**470,488**	376,868
Non-controlling interests		**(231)**	7,203
		470,257	384,071
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic for profit for the year (expressed in RMB per share)	11	**22.39 cents**	18.54 cents
Diluted for profit for the year (expressed in RMB per share)	11	**22.39 cents**	18.54 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	119,472	134,672
Investment properties		12,970	9,827
Right-of-use assets	13	1,887	3,261
Investments in associates	14	375,239	378,243
Investments in joint ventures	15	84,159	88,920
Equity investments designated at fair value through other comprehensive income	16	338,000	363,000
Service concession intangible assets	17	1,133,188	802,417
Other intangible assets		3,436	3,268
Goodwill	18	60,219	60,219
Financial receivables	19	8,313,899	7,513,981
Deferred tax assets	20	81,036	90,629
Prepayments, other receivables and other assets	22	173,457	231,502
Contract assets	23	2,074,910	2,027,135
Total non-current assets		12,771,872	11,707,074
CURRENT ASSETS			
Inventories		14,834	13,530
Contract assets	23	222,337	222,236
Financial receivables	19	1,692,798	1,643,994
Trade and bills receivables	21	1,527,023	1,363,602
Prepayments, other receivables and other assets	22	617,705	608,392
Pledged deposits	25	215,550	163,167
Cash and cash equivalents	25	430,262	225,672
Other current financial assets	24	153,449	750,824
Total current assets		4,873,958	4,991,417
CURRENT LIABILITIES			
Trade and bills payables	26	2,058,172	1,779,354
Other payables and accruals	27	217,116	342,121
Deferred income		1,260	–
Interest-bearing bank and other borrowings	28	1,934,372	3,222,399
Corporate bonds	29	327,262	907,423
Tax payable		41,955	30,829
Total current liabilities		4,580,137	6,282,126
NET CURRENT ASSETS/(LIABILITIES)		293,821	(1,290,709)
TOTAL ASSETS LESS CURRENT LIABILITIES		13,065,693	10,416,365

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT LIABILITIES			
Trade payables	26	1,756	3,624
Interest-bearing bank and other borrowings	28	6,754,171	4,410,206
Corporate bonds	29	256,985	569,366
Deferred income		1,260	–
Other payables and accruals	27	23,063	18,447
Deferred tax liabilities	20	910,260	820,570
Total non-current liabilities		7,947,495	5,822,213
Net assets		5,118,198	4,594,152
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	17,125	16,143
Reserves	32	4,901,605	4,378,959
		4,918,730	4,395,102
Non-controlling interests		199,468	199,050
Total equity		5,118,198	4,594,152

Li Zhong
Director

Duan Jerry Linnan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Attributable to owners of the parent									
	Issued capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Special reserve RMB'000	Share option reserve RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2019	16,143	1,643,661	376,899	–	56,395	(12,750)	2,034,305	4,114,653	207,020	4,321,673
Profit for the year	–	–	–	–	–	–	376,868	376,868	7,203	384,071
Other comprehensive income for the year:										
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	–	–	–	–	–	(107,100)	–	(107,100)	–	(107,100)
Total comprehensive income for the year	–	–	–	–	–	(107,100)	376,868	269,768	7,203	276,971
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	5,464	5,464
Acquisition of non-controlling interests	–	–	1,523	–	–	–	–	1,523	(5,563)	(4,040)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	(15,074)	(15,074)
Equity-settled share option scheme	–	–	–	–	9,158	–	–	9,158	–	9,158
Transfer to special reserve (c)	–	–	–	19,702	–	–	(19,702)	–	–	–
Utilisation of special reserve (c)	–	–	–	(19,702)	–	–	19,702	–	–	–
As at 31 December 2019	16,143	1,643,661*	378,422*	–*	65,553*	(119,850)*	2,411,173*	4,395,102	199,050	4,594,152
As at 1 January 2020	16,143	1,643,661	378,422	–	65,553	(119,850)	2,411,173	4,395,102	199,050	4,594,152
Profit for the year	–	–	–	–	–	–	470,488	470,488	(231)	470,257
Other comprehensive income for the year:										
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	–	–	–	–	–	(21,250)	–	(21,250)	–	(21,250)
Total comprehensive income for the year	–	–	–	–	–	(21,250)	470,488	449,238	(231)	449,007
Exercise of share options (a)	982	73,723	–	–	–	–	–	74,705	–	74,705
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	1,317	1,317
Movement in merger reserve of investment in an associate	–	–	(315)	–	–	–	–	(315)	–	(315)
Disposal of a subsidiary (b)	–	–	–	–	–	–	–	–	(668)	(668)
Transfer to special reserve (c)	–	–	–	24,207	–	–	(24,207)	–	–	–
Utilisation of special reserve (c)	–	–	–	(24,207)	–	–	24,207	–	–	–
As at 31 December 2020	17,125	1,717,384*	378,107*	–*	65,553*	(141,100)*	2,881,661*	4,918,730	199,468	5,118,198

* These reserve accounts comprise the consolidated reserves of RMB4,901,605,000 (31 December 2019: RMB4,378,959,000) in the consolidated statement of financial position.

Notes:

(a) During the year ended 31 December 2020, the subscription rights attaching to 107,350,000 share options issued pursuant to the share option scheme of the Company were exercised at the exercise price of HK$0.76 per share, resulting in the issue of 107,350,000 shares of HK$0.01 each for a total cash consideration of HK$81,586,000, approximately RMB74,705,000. The premium of RMB73,723,000 was credited to the share premium account.

(b) In 2020, Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd., an indirectly wholly-owned subsidiary of the Company, disposed of its entire 70% interests in Guangdong Kangda Ecological Environmental Protection Industry Development Co., Ltd., which resulted in the derecognition of non-controlling interests of RMB668,000.

(c) From 14 February 2012, the Group provided for and utilised the safety production expense fund according to the Circular on *Printing and Distributing the Management Measures on the Enterprises Production Safety Expense of Enterprises Appropriation and Utilisation* (2012 No.16) issued by the Ministry of Finance and the State Administration of Work Safety of the People's Republic of China.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**607,539**	509,841
Adjustments for:			
Finance costs	7	**561,781**	557,541
Foreign exchange differences, net	6	**(5,557)**	1,222
Loss on disposal of subsidiaries	33	**708**	13,691
Share of profits and losses of associates and joint ventures		**7,449**	(1,832)
Equity-settled share option expense	31	**–**	9,158
Bank interest income	5	**(4,665)**	(4,204)
Interest income from loans to third parties	5	**(18,099)**	(20,658)
Interest income from loans to an associate and joint ventures	5	**(820)**	(6,914)
Investment income from other current financial assets	5	**(26,246)**	(62,910)
Dividend income from equity investments at fair value through other comprehensive income	5	**–**	(9,143)
Covid-19-related rent concessions from lessors	13	**(89)**	–
Depreciation of property, plant and equipment	6, 12	**10,471**	10,897
Depreciation of investment properties	6	**933**	702
Depreciation of right-of-use assets	6, 13	**1,932**	3,126
Amortisation of service concession intangible assets	6, 17	**57,870**	44,757
Amortisation of other intangible assets	6	**501**	315
Loss on disposal of a joint venture	6, 15	**–**	7,414
Loss on disposal of items of property, plant and equipment	6	**11**	185
Loss allowance for impairment of financial receivables	6, 19	**1,801**	–
Loss allowance for impairment of contract assets	6, 23	**403**	–
Loss allowance for impairment of prepayments, other receivables and other assets	6, 22	**7,875**	2,058
Loss allowance for impairment of trade receivables	6, 21	**22,459**	3,493
		1,226,257	1,058,739
(Increase)/decrease in inventories		**(1,304)**	1,026
Increase in financial receivables		**(850,523)**	(1,466,099)
(Increase)/decrease in contract assets		**(190,705)**	487,726
Increase in trade and bills receivables		**(188,377)**	(71,116)
Decrease in prepayments, other receivables and other assets		**11,251**	27,516
Increase in trade and bills payables		**256,162**	86,846
(Decrease)/increase in other payables and accruals		**(9,574)**	48,807
Decrease in contract liabilities		**8,001**	(17,885)
Decrease in deferred income		**2,520**	(11,536)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Cash generated from operations		263,708	144,024
Interest received		3,141	10,203
Income taxes paid		(23,123)	(39,205)
Net cash flows from operating activities		243,726	115,022
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment	12	(1,247)	(3,829)
Additions to intangible assets		(226,096)	(185,375)
Proceeds from disposal of items of property, plant and equipment		831	1,240
Decrease in other current financial assets		623,621	105,116
Acquisition of subsidiaries, net of cash acquired		(63,743)	(99,688)
Disposal of subsidiaries	33	847	5,122
Additions to investments in associates		(691)	(69,310)
Dividends received		–	9,143
Disposal of a joint venture		–	43,000
(Increase)/decrease in pledged deposits		(52,383)	16,560
Interest received from third parties		26,035	–
Decrease in loans due from a joint venture		–	6,003
Decrease in loans due from a third party		30,000	–
Net cash flows from/(used in) investing activities		337,174	(172,018)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase of interest-bearing bank and other borrowings		4,974,455	4,063,687
Repayment of interest-bearing bank and other borrowings		(3,974,191)	(3,512,081)
Interest paid		(537,337)	(567,874)
Acquisition of non-controlling interests		–	(4,040)
Repayment of corporate bonds		(915,994)	(675,994)
Principal portion of lease payments		(2,403)	(2,761)
Proceeds from exercise of share options		74,705	–
Capital contribution from a non-controlling shareholder		–	5,000
Net cash flows used in financing activities		(380,765)	(694,063)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		200,135	(751,059)
Cash and cash equivalents at beginning of year		225,672	976,246
Effect of foreign exchange rate changes, net		4,455	485
CASH AND CASH EQUIVALENTS AT END OF YEAR	25	430,262	225,672

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION

Kangda International Environmental Company Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 4 July 2014.

The Company is an investment holding company and its subsidiaries are engaged in the design, construction, operation and maintenance of waste water treatment plants (the "WTPs"), reclaimed water treatment plants (the "RWTPs"), water distribution plants (the "WDPs"), sludge treatment plants (the "STPs") and other municipal infrastructure in the People's Republic of China (the "PRC", or Mainland China, which excludes for the purpose of this report, the Hong Kong Special Administrative Region of the PRC or Hong Kong, the Macau Special Administrative Region of the PRC or Macau, and Taiwan).

In the opinion of the directors of the Company (the "Directors"), the Company has no controlling shareholders.

Information about subsidiaries

Particulars of the principal subsidiaries of the Company are as follows:

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Kangda Environmental Protection Investment Limited (康達環保投資有限公司)	The BVI	US$1	100	–	Investment holding company
Kangda Investment (Hong Kong) Company Limited (康達投資(香港)有限公司)	Hong Kong	HK$1	–	100	Investment holding company
Kangyu Investment Co., Ltd. (康渝投資有限公司)#^	PRC/ Mainland China	US$200,000,000	–	100	Investment activities in Mainland China
Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd. ("Chongqing Kangda") (重慶康達環保產業(集團)有限公司)#*	PRC/ Mainland China	RMB1,730,000,000	–	100	Investment in WTPs and construction of municipal infrastructure in Mainland China
Kangda Environmental Protection Water Co., Ltd. (康達環保水務有限公司)#*	PRC/ Mainland China	RMB80,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Kangda Environmental Protection (Shangqiu) Water Co., Ltd. (康達環保(商丘)水務有限公司)#*	PRC/ Mainland China	RMB63,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Kangda Environmental Protection (Suzhou) Water Co., Ltd. (康達環保(宿州)水務有限公司)#*	PRC/ Mainland China	RMB23,000,000	–	100	Provision of WTP operation services in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangrao Kangda Environmental Protection Water Co., Ltd. (廣饒康達環保水務有限公司)#*	PRC/ Mainland China	RMB8,320,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Harbin Kangda Environmental Protection Investment Co., Ltd. (哈爾濱康達環保投資有限公司)#*	PRC/ Mainland China	RMB30,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Linying Kangda Environmental Protection Water Co., Ltd. (臨潁康達環保水務有限公司)#*	PRC/ Mainland China	RMB6,000,000	–	100	Provision of WTP operation services in Mainland China
Weifang Kangda Environmental Protection Water Co., Ltd. (濰坊康達環保水務有限公司)#*	PRC/ Mainland China	RMB94,180,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Kangda Environmental Protection (Gaomi) Sewage Treatment Co., Ltd. (康達環保(高密)污水處理有限公司)#*	PRC/ Mainland China	RMB17,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Kangda Environmental Protection (Gaomi) Fengcheng Sewage Treatment Co., Ltd. (康達環保(高密)鳳城生活污水處理有限公司)#*	PRC/ Mainland China	RMB8,500,000	–	100	Provision of WTP operation services in Mainland China
Rushan Kangda Water Co., Ltd. (乳山康達水務有限公司)#*	PRC/ Mainland China	RMB24,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Shangqiu Kangda Sewage Treatment Co., Ltd. (商丘康達污水處理有限公司)#*	PRC/ Mainland China	RMB20,250,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Haiyang Xingcun Kangda Water Co., Ltd. (海陽行村康達水務有限公司)#*	PRC/ Mainland China	RMB19,490,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Shanxian Kangda Environmental Protection Water Co., Ltd. (單縣康達環保水務有限公司)#*	PRC/ Mainland China	RMB26,500,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Kangda (Dongying) Environmental Protection Water Co., Ltd. ("Kangda Dongying") (康達(東營)環保水務有限公司)#*	PRC/ Mainland China	US$24,988,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beijing Chang Sheng Si Yuan Environmental Protection Technology Co., Ltd. (北京長盛思源環保科技有限公司)#*	PRC/ Mainland China	RMB150,000,000	–	100	Investment, management of environmental projects and public infrastructure projects in Mainland China
Yucheng Dongjiao Chengjian Sewage Treatment Co., Ltd. (禹城東郊城建污水處理有限公司)#*	PRC/ Mainland China	RMB10,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Puyang Kangda Environmental Protection Water Co., Ltd. (濮陽康達環保水務有限公司)#*	PRC/ Mainland China	RMB50,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Liangshan Kangda Water Co., Ltd. (梁山康達水務有限公司)#*	PRC/ Mainland China	RMB1,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Jining City Xinkangda Sewage Treatment Co., Ltd. (濟寧市鑫康達水務有限公司)#*	PRC/ Mainland China	RMB64,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Shen County Kangda Sewage Treatment Co., Ltd. (莘縣康達水務有限公司)#*	PRC/ Mainland China	RMB121,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Kangda Environmental Protection (Gaomi) Water Co., Ltd. (康達環保(高密)水務有限公司)#*	PRC/ Mainland China	RMB33,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Zhengzhou Xinzhongzhou Water Co., Ltd. ("Xinzhongzhou Water") (鄭州新中洲水務有限公司)#*	PRC/ Mainland China	RMB100,300,000	–	70	Provision of WTP operation services in Mainland China
Xuzhou Kangda Environmental Protection Water Co., Ltd. (徐州康達環保水務有限公司)#*	PRC/ Mainland China	RMB20,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Tianjin Kangda Environmental Protection Water Co., Ltd. (天津康達環保水務有限公司)#*	PRC/ Mainland China	RMB16,500,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Chongqing Fulunde Technology Co., Ltd. (重慶弗侖德科技有限公司)#*	PRC/ Mainland China	RMB20,000,000	–	100	Development and sale of computer software in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Suzhou Kangda Environmental Protection Sewage Treatment Co., Ltd. (宿州康達環保污水處理有限公司)#*	PRC/ Mainland China	RMB36,000,000	–	100	Provision of WTP operation services in Mainland China
Gaomi Kangda Lvyi Sludge Treatment Co., Ltd. (高密康達綠意污泥處理有限公司)#*	PRC/ Mainland China	RMB3,000,000	–	100	Construction and provision of STP operation services in Mainland China
Yunan Kangda Liangke Environment Treatment Co., Ltd. (郁南康達亮科環境治理有限公司)#*	PRC/ Mainland China	RMB62,000,000	–	80	Construction, operation and maintenance of WTPs and other environmental protection projects in Mainland China
Weihai Kangda Ecological Environment Treatment Co., Ltd. ("Weihai Kangda") (威海康達生態環境綜合治理有限公司)#*	PRC/ Mainland China	RMB100,000,000	–	88	Construction, operation and maintenance of WTPs, STPs, pipe networks and other municipal infrastructure in Mainland China
Pingdingshan City Bay Water Treatment Co., Ltd. ("Pingdingshan City Bay") (平頂山市海灣水務有限公司)#*	PRC/ Mainland China	RMB50,000,000	–	80	Construction of WTPs and provision of WTP operation services in Mainland China
Shenzhen Kangyue Environmental Protection Technology Co., Ltd. (深圳康粵環保科技有限公司)#*	PRC/ Mainland China	RMB50,000,000	–	100	Development and sale of WTP equipment in Mainland China
Shenzhen Kangyuan Environmental Nano Science and Technology Co., Ltd. (深圳市康源環境納米科技有限公司)#*	PRC/ Mainland China	RMB10,000,000	–	100	Development and sale of WTP equipment in Mainland China
Dongping Kangda Water Co., Ltd. (東平康達水務有限公司)#*	PRC/ Mainland China	US$5,200,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Chongqing Kangda Lvyi Energy Investment Co., Ltd. (重慶康達綠意能源投資有限公司)#*	PRC/ Mainland China	RMB50,000,000	–	100	Investment in energy industry and provision of WTP operation services in Mainland China
Shangqiu Kangda Water Treatment Co., Ltd. (商丘康達水處理有限公司)#*	PRC/ Mainland China	RMB10,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Chongqing Kangda Zhishang Environmental Protection Industry Co., Ltd. (重慶康達至尚環保產業有限公司)#*	PRC/ Mainland China	RMB70,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Xinzheng Kangda Water Co., Ltd. (新鄭康達水務有限公司)#*	PRC/ Mainland China	RMB1,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Qishan County Dayuan Sewage Treatment Co., Ltd. ("Qishan") (岐山縣大源污水處理有限責任公司)#*	PRC/ Mainland China	RMB3,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Weifang Shuangjie Water Purification Material Co., Ltd. ("Weifang Shuangjie") (濰坊雙傑淨水材料有限公司)#*	PRC/ Mainland China	RMB8,000,000	–	100	Sale of water purifying materials in Mainland China
Dong'e County Kangda Sewage Treatment Co., Ltd. (東阿縣康達水務有限公司)#*	PRC/ Mainland China	RMB110,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Liaocheng Jiaming Kangda Sewage Treatment Co., Ltd. (聊城嘉明康達污水處理有限公司)#*	PRC/ Mainland China	RMB70,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Linqing City Kangda Sewage Treatment Co., Ltd. (臨清市康達污水處理有限公司)#*	PRC/ Mainland China	RMB75,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Qitaihe Kangda Water Co., Ltd. ("Qitaihe") (七台河康達水務有限責任公司)#*	PRC/ Mainland China	RMB90,000,000	–	100	Construction and provision of WTP and RWTP operation services and reclaimed water treatment services in Mainland China
Xinzheng Xinkang Water Co., Ltd. ("Xinzheng Xinkang") (新鄭新康水務有限公司)#*	PRC/ Mainland China	RMB60,000,000	–	70	Construction of WTPs and provision of WTP operation services in Mainland China
Kangda Environmental Protection (Linyi) Water Co., Ltd. (康達環保(臨沂)水務有限公司)#*	PRC/ Mainland China	RMB15,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Fengxian Kangda Environmental Protection the second Sewage treatment Co., Ltd. (豐縣康達環保第二污水處理有限公司)#*	PRC/ Mainland China	RMB20,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Jining Kangda Environmental Protection Water Co., Ltd. (濟寧康達環保水務有限公司)#*	PRC/ Mainland China	RMB25,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Haiyang Kangda Environmental Protection Water Co., Ltd. (海陽康達環保水務有限公司)#*	PRC/ Mainland China	RMB6,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Wendeng Kangda Environmental Protection Water Co., Ltd. (文登康達環保水務有限公司)#*	PRC/ Mainland China	RMB10,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Weifang Binhai Kangda Environmental Protection Water Co., Ltd. (濰坊濱海康達環保水務有限公司)#*	PRC/ Mainland China	RMB10,500,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Kangda Environmental Protection (Hebi) Water Treatment Co., Ltd. ("Hebi Kangda") (康達環保(鶴壁)水處理有限公司)#*	PRC/ Mainland China	RMB5,500,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Pingdingshan Kangda Environmental Protection Water Co., Ltd. (平頂山康達環保水務有限公司)#*	PRC/ Mainland China	RMB10,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Huadian Kangda Environmental Protection Water Co., Ltd. (樺甸康達環保水務有限公司)#*	PRC/ Mainland China	RMB10,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Fengxian Kangda Environmental Protection the third Sewage Treatment Co., Ltd. (豐縣康達第三污水處理有限公司)#*	PRC/ Mainland China	RMB3,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Suihua Kangda Environmental Protection Water Co., Ltd. (綏化康達環保水務有限公司)#*	PRC/ Mainland China	RMB1,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Jixi County Chengjian Sewage Treatment Co., Ltd. (績溪縣城建污水處理有限公司)#*	PRC/ Mainland China	RMB8,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Dacheng Chengjian Environmental Protection Sewage Treatment Co., Ltd. (大城縣城建環保污水處理有限公司)#*	PRC/ Mainland China	RMB9,600,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Jiyuan City Yuchuan Chengjian Sewage Treatment Co., Ltd. (濟源市玉川城建污水處理有限公司)#*	PRC/ Mainland China	RMB30,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Dandong Kangda Environmental Protection Water Co., Ltd. (丹東康達環保水務有限公司)#*	PRC/ Mainland China	RMB27,800,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Sanmenxia Kangda Water Co., Ltd. (三門峽康達水務有限公司)#*	PRC/ Mainland China	RMB10,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Tianjin Kangda Lvyi Sludge Treatment Co., Ltd. (天津康達綠意污泥處理有限公司)#*	PRC/ Mainland China	RMB2,000,000	–	100	Construction of STPs and provision of STP operation services in Mainland China
Jiaoling Kangda Environmental Governance Co., Ltd. ("Jiaoling Kangda") (蕉嶺康達環境治理有限公司)#*	PRC/ Mainland China	RMB56,172,000	–	97	Construction, operation and maintenance of WTPs and other environmental protection projects in Mainland China
Shandong Fengmin Water Co., Ltd. ("Shandong Fengmin") (山東豐民水務有限公司)#*	PRC/ Mainland China	RMB100,000,000	–	100	Construction of WDPs and provision of WDP operation services in Mainland China
Wenzhou Chuangyuan Water Co., Ltd. ("Wenzhou Chuangyuan") (溫州市創源水務有限公司)#*	PRC/ Mainland China	RMB52,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Meiling Environmental Technology (Zibo) Co., Ltd. ("Meiling Zibo") (美陵環境科技(淄博)有限公司)#^	PRC/ Mainland China	SGD3,780,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Jining Meiling Sewage Purification Co., Ltd. ("Jining Meiling") (濟寧美陵污水淨化有限公司)#*	PRC/ Mainland China	RMB5,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Qingzhou Meiling Sewage Purification Co., Ltd. ("Qingzhou Meiling") (青州市美陵污水淨化有限公司)#*	PRC/ Mainland China	RMB5,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Sichuan Weiyuan Hefeng Bioengineering Co., Ltd. ("Weiyuan Hefeng") (四川威遠禾豐生物工程有限公司)#*	PRC/ Mainland China	RMB45,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Taiyuan Kangjin Water Co., Ltd. ("Taiyuan Kangjin") (太原康晉水務有限公司)#*	PRC/ Mainland China	RMB194,450,000	–	99.44	Construction of WTPs and provision of WTP operation services in Mainland China
Weiyuan Kangda Environmental Protection Co., Ltd. ("Weiyuan Kangda") (威遠康達環保有限公司)#*	PRC/ Mainland China	RMB38,496,000	–	95	Construction of WTPs and provision of WTP operation services in Mainland China
Shenyang Jinhai Kangda Environmental Protection Water Co., Ltd. ("Shenyang Jinhai") (瀋陽近海康達環保水務有限公司)#*	PRC/ Mainland China	RMB22,000,000	–	95	Construction of WTPs and provision of WTP operation services in Mainland China

The names of these companies referred to in this report represent management's best effort in translating the Chinese names of the companies registered in Mainland China, as no English names have been registered.

^ Kangyu Investment Co., Ltd. and Meiling Environmental Technology (Zibo) Co., Ltd. are registered as wholly- foreign-owned enterprises under PRC law.

* These companies are registered as limited liability companies under PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

Conceptual Framework for Financial Reporting 2018

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

Amendments to IFRS 3: Definition of a Business

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

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

Amendments to IAS 1 and IAS 8: Definition of Material

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the consolidated financial statements.

Amendments to IFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform — Phase 2*[1]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[3]
Amendments to IFRS 17	*Insurance Contracts*[3,6]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3,5]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to IAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*[2]
Annual Improvements to IFRSs 2018–2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 No mandatory effective date yet determined but available for adoption
5 As a consequence of the amendments to IAS 1, International Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion
6 As a consequence of the amendments to IFRS 17 issued in October 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

Further information about those IFRSs that are expected to be applicable to the Group is described below.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Amendments to IFRS 3: Reference to the Conceptual Framework

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform — Phase 2

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank and other borrowings denominated in Hong Kong dollars and foreign currencies based on the Hong Kong Interbank Offered Rate and the London Interbank Offered Rate ("LIBOR") as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Amendments to IFRS 10 and IAS 28 (2011): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 (2011) was removed by the IASB in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

Amendments to IAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16: Property, Plant and Equipment: Proceeds before Intended Use

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Amendments to IAS 37: Onerous Contracts — Cost of Fulfilling a Contract

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to IFRSs 2018–2020

Annual Improvements to IFRSs 2018–2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

The Group measures its equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets, financial assets, investment properties, and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets *(continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statement of profit or loss and other comprehensive income in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

(b) *(continued)*

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of profit or loss and other comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings and other infrastructure	3.13%–4.50%
Machinery	6.67%–18.00%
Office equipment and others	9.50%–18.00%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated statement of profit or loss and other comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each item of such properties to its residual value over its estimated useful life. The principal annual rate used for this purpose is as follows:

Buildings	4.50%

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 years.

Research and development costs

All research costs are charged to the consolidated statement of profit or loss and other comprehensive income as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill) *(continued)*

Research and development costs *(continued)*

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Operating concessions

For details of the accounting policy of operating concessions, please refer to "Service concession arrangements" below.

Operating contract rights

Operating contract rights represent the fair value of operating rights of WTPs or RWTPs acquired through business combination. These intangible assets are amortised on the straight-line basis over the remaining period of the operating contract rights.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Land	19 years
Office	2 to 3 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

Group as a lessee *(continued)*

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of office properties (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office properties that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income and gains in the consolidated statement of profit or loss and other comprehensive income due to its nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as other income and gains in the period in which they are earned.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Service concession arrangements

The Group has entered into a number of service concession arrangements with the Grantors. The service concession arrangements consist of Build-Operate-Transfer (the "BOT") arrangements and Transfer-Operate-Transfer (the "TOT") arrangements. Under the BOT arrangements, the Group carries out construction work of the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure for the Grantors and receives in return the rights to operate the service project concerned for a specified period of time (the "operation period") in accordance with the pre-established conditions set by the Grantors, and the service project should be transferred to the Grantors with nil consideration at the end of the operation period. A TOT arrangement is similar to a BOT arrangement, except that the Group pays consideration for the rights to operate the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure that have been built.

Consideration given by the Grantors

A financial asset (financial receivable) is recognised to the extent that the Group has an unconditional right to receive cash or another financial asset from or at the direction of the Grantors for the construction services rendered and/or the consideration paid and payable by the Group for the rights to operate WTPs, and the Grantors have little, if any, discretion to avoid payment, usually because the agreements are enforceable by law. The Group has an unconditional right to receive cash if the Grantors contractually guarantee to pay the Group specified or determinable amounts even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (financial receivable) is accounted for in accordance with the policy set out for *Financial assets at amortised cost (debt instruments)* under "Investments and other financial assets" below.

An intangible asset (operating concession) is recognised to the extent that the Group receives the rights to charge users of public service or the grantors remunerate the Group on the basis of the extent of use of the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure by users, but with no guarantees as to the amounts that will be paid to the Group, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public use the service. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "intangible assets" above, which is amortised on a straight-line basis over the terms of operation ranging from 25 to 30 years.

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration.

Construction or upgrade services

Costs relating to construction or upgrade services comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads. Revenue from the construction or upgrade services under the BOT agreements is estimated on a cost-plus basis with reference to the prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in similar locations, and is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Service concession arrangements *(continued)*

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for "Revenue recognition" below. Costs for operating services are expensed in the period in which they are incurred.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of profit or loss and other comprehensive income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the consolidated statement of profit or loss and other comprehensive income.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the consolidated statement of profit or loss and other comprehensive income. Dividends are recognised as other income in the consolidated statement of profit or loss and other comprehensive income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the consolidated statement of profit or loss and other comprehensive income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement *(continued)*

Financial assets at fair value through profit or loss (continued)

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The various group companies have different credit policies depending on the requirements of their markets in which they operate and the businesses they engage in. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, interest-bearing bank and other borrowings, and corporate bonds.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing bank and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated statement of profit or loss and other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions *(continued)*

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general policy for provisions above; and (ii) the amount initially recognised less, when appropriate, the amount of income recognised in accordance with the policy for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the year, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated statement of profit or loss and other comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the consolidated statement of profit or loss and other comprehensive income by way of a reduced depreciation charge.

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to the consolidated statement of profit or loss and other comprehensive income over the expected useful lives of the relevant assets by equal annual instalments.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Revenue from contracts with customers *(continued)*

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) *BOT arrangements*

Revenue from the construction services under the BOT agreements is estimated on a cost-plus basis with reference to the prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in similar locations, and is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

(b) *EPC arrangements*

Revenue from the provision of construction services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

Claims to customers are amounts that the Group seeks to collect from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract. Claims are accounted for as variable consideration and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group uses the expected value method to estimate the amounts of claims because this method best predicts the amount of variable consideration to which the Group will be entitled.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Revenue from contracts with customers *(continued)*

(c) *Provision of operation services*

Revenue from the provision of operation services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Other income

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the consolidated statement of profit or loss and other comprehensive income on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss and other comprehensive income for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the consolidated statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the central pension scheme.

Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits *(continued)*

Housing fund and other social insurances

The Group has participated in defined social security contribution schemes for its employees pursuant to the relevant laws and regulations of the PRC. These include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances. The contributions are charged to profit or loss on an accrual basis. The Group has no further obligations beyond the contributions made.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The consolidated financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the year. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

As at the end of the year, the assets and liabilities of these entities whose functional currencies differ from the presentation currency are translated into RMB at the exchange rates prevailing at the end of the year and the consolidated statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

Revenue from contracts with customers *(continued)*

(i) Accounting for service concession arrangements

The Group engages in certain service concession arrangements in which the Group carries out construction work of the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure for the Grantors and receives in return the rights to operate the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure concerned in accordance with the pre-established conditions set by the Grantors. In accordance with IFRIC 12 *Service Concession Arrangements*, the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure under the service concession arrangements may be classified as intangible assets or financial assets. The WTPs, RWTPs, WDPs, STPs or other municipal infrastructure are classified as intangible assets if the Group receives a right (a licence) to charge users of the public service or if the Grantors remunerate the Group on the basis of the extent of use of the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure by users, but with no guarantees as to the amounts that will be paid to the Group. Whenever only part of the investment by the Group under these service concession arrangements is covered by a payment commitment from the Grantors, it is recognised as a financial receivable up to the amount guaranteed by the Grantors, and as an intangible asset for the balance. The Group recognises a financial receivable if it has an unconditional contractual right under the service concession arrangements to receive a determinable amount of payments during the concession period irrespective of the usage of the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure.

Subsequent to initial recognition, the financial receivable is measured at amortised cost using the effective interest method.

Revenue from the construction service under the terms of service concession arrangements is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of agreement applicable to similar construction services rendered in similar locations, and is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. The Group's prevailing margins of gross construction margin were valued by Crowe Horwath First Trust Appraisal Pte Ltd ("Crowe Horwath"), an independent third-party valuer that has appropriate qualifications and recent experience in the valuation of gross construction margin.

When the Group receives a payment during the concession period, it will apportion such payment among (i) a repayment of the financial receivables (if any), which will be used to reduce the carrying amount of the financial receivables on the statement of financial position, (ii) interest income, which will be recognised as revenue in profit or loss and (iii) revenue from operating and maintaining the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure in profit or loss.

Judgement is also exercised in determining the fair value of the financial receivables. Discount rates, estimates of future cash flows and other factors are used in the valuation process.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

Revenue from contracts with customers *(continued)*

(ii) Accounting for EPC arrangements

The Group seeks to collect claims from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract, which give rise to variable consideration. The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for claims in construction services, given there is a wide range of possible outcomes which are subject to negotiations with third parties.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, current negotiations with customers, profitability of the head contracts of the customers and the current economic conditions.

Withholding tax arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends or on whether certain subsidiaries of the Group are determined to be Chinese resident enterprises by the PRC governing tax authorities in the future. Management considered that it is not probable that the Group's subsidiaries in the PRC will distribute retained profits as at the end of the year in the foreseeable future, and accordingly no additional provision for withholding tax was made. Where the final outcome of these matters is different from the amounts originally rewarded, the difference will impact the deferred tax provision in the period in which the difference arises.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of the asset. The estimation of the useful life of the asset is based on historical experience of the Group with similar assets that are used in a similar way. Depreciation amount will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at the end of the year, based on changes in circumstances.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Current income tax and deferred income tax

The Group is subject to income taxes in Hong Kong and Mainland China. Estimation is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the current income tax and deferred income tax in the periods in which the differences arise. Deferred tax assets relating to certain temporary differences or unused tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or the unused losses can be utilised.

The realisation of the deferred tax assets mainly depends on whether sufficient future profits will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a reversal takes place. Details of deferred tax assets are contained in note 20 to the consolidated financial statements.

Percentage of completion of construction services

The Group recognises revenue according to the percentage of completion of individual contracts of construction works, which requires estimation to be made by management. The stage of completion is estimated by reference to the actual costs incurred over the total budgeted costs. Due to the nature of the activity undertaken in construction works, the date on which the activity commences and the date on which the activity completes usually fall into different accounting periods. Hence, the Group reviews and revises the percentage of completion of construction works. Where the actual contract revenue is less than expected or actual contract costs are more than expected, a foreseeable loss may arise.

Estimation of total budgeted costs and cost to completion for construction services

Total budgeted costs for construction contracts comprise (i) direct material costs and direct labour, (ii) costs of subcontracting, and (iii) an appropriation of variable and fixed construction overheads. In estimating the total budgeted costs for construction contracts, management refers to information such as (i) current offers from sub-contractors and suppliers, (ii) recent offers agreed with sub-contractors and suppliers, and (iii) professional estimation on material costs, labour costs and other costs.

Provision for expected credit losses on trade receivables, financial receivables, and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables, financial receivables, and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Provision for expected credit losses on trade receivables, financial receivables, and contract assets *(continued)*

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's financial receivables, trade receivables, and contract assets is disclosed in note 19, note 21 and note 23 to the financial statements, respectively.

Financial receivables

Estimation is exercised in determining the fair values of the financial receivables at initial recognition. These fair values are computed on the discounted cash flow method using a discount rate based upon the market-related rate for a similar instrument as at the date of initial recognition. The assumptions and estimates used can materially affect the fair values of the financial receivables.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 18.

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. OPERATING SEGMENT INFORMATION

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

(a) the segment of Urban Water Treatment engages in the design, construction, upgrade and operation of WTPs, RWTPs, STPs and WDPs, and in O&M;

(b) the segment of Water Environment Comprehensive Remediation engages in river harnessing and improvement, foul water body treatment, sponge city construction; and

(c) the segment of Rural Water Improvement engages in the construction and operation related to "the Water Environment Facilities of Beautiful Village" such as: waste water treatment facilities and pipeline construction for collecting waste water so as to achieve rural living environment improvement.

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

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

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

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

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

3. OPERATING SEGMENT INFORMATION *(continued)*

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

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2020	Urban Water Treatment RMB'000	Water Environment Comprehensive Remediation RMB'000	Rural Water Improvement RMB'000	Total RMB'000
Segment liabilities	10,801,996	519,291	531,704	11,852,991
Reconciliation:				
Corporate and other unallocated liabilities				674,641
Total liabilities				12,527,632
Other segment information				
Investments in associates	–	230,787	–	230,787
Unallocated investments in associates				144,452
Investment in a joint venture	72,801	–	–	72,801
Unallocated investment in a joint venture				11,358
Share of profits and losses of associates	–	(1,413)	–	(1,413)
Share of profits and losses of unallocated associates				(1,275)
Share of profit and loss of a joint venture	(2,311)	–	–	(2,311)
Share of profit and loss of an unallocated joint venture				(2,450)
Impairment losses recognised in the consolidated statement of profit or loss and other comprehensive income, net	(23,995)	(8,543)	–	(32,538)
Depreciation and amortisation	61,260	131	3,552	64,943
Unallocated depreciation and amortisation				6,764
Total depreciation and amortisation				71,707
Capital expenditure	127,924	–	119,489	247,413
Unallocated amounts				48
Total capital expenditure*				247,461

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

3. OPERATING SEGMENT INFORMATION *(continued)*

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

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2019	Urban Water Treatment RMB'000	Water Environment Comprehensive Remediation RMB'000	Rural Water Improvement RMB'000	Total RMB'000
Other segment information				
Investments in associates	–	232,200	–	232,200
Unallocated investments in associates				146,043
Investment in a joint venture	75,112	–	–	75,112
Unallocated investment in a joint venture				13,808
Share of profits and losses of associates	–	1,299	–	1,299
Share of profits and losses of unallocated associates				102
Loss on disposal of a joint venture	–	(7,414)	–	(7,414)
Share of profits and losses of joint ventures	(1,372)	1,759	–	387
Share of profit and loss of an unallocated joint venture				44
Impairment losses recognised in the consolidated statement of profit or loss and other comprehensive income, net	(31)	(5,520)	–	(5,551)
Depreciation and amortisation	51,765	124	61	51,950
Unallocated depreciation and amortisation				7,847
Total depreciation and amortisation				59,797
Capital expenditure	284,262	43	75,190	359,495
Unallocated amounts				57
Total capital expenditure*				359,552

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

3. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2020 RMB'000	2019 RMB'000
Mainland China	3,332,432	2,815,203

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

(b) Non-current assets

	2020 RMB'000	2019 RMB'000
Mainland China	12,690,836	11,616,445

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

Information about major customers

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

Year ended 31 December 2020

	Urban Water Treatment RMB'000	Total RMB'000
Customer A	527,121	527,121
Customer C	185,225	185,225
	712,346	712,346

Year ended 31 December 2019

	Urban Water Treatment RMB'000	Total RMB'000
Customer A	259,106	259,106
Customer B	225,022	225,022
	484,128	484,128

4. REVENUE

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

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

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

Revenue from contracts with customers

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

4. REVENUE *(continued)*

Revenue from contracts with customers *(continued)*

(a) Disaggregated revenue information

For the year ended 31 December 2020

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

4. REVENUE *(continued)*

Revenue from contracts with customers *(continued)*

(a) Disaggregated revenue information *(continued)*

For the year ended 31 December 2019

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

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

(b) Performance obligations

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

5. OTHER INCOME AND GAINS

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

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

6. PROFIT BEFORE TAX

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

	Notes	2020 RMB'000	2019 RMB'000
Cost for construction services		**1,333,485**	1,046,610
Cost for operation services		**662,144**	605,990
Cost for sales of water purifying materials		**11,166**	–
Total cost of services		**2,006,795**	1,652,600
Depreciation of property, plant and equipment	12	**10,471**	10,897
Depreciation of right-of-use assets	13(a)	**1,932**	3,126
Amortisation of service concession intangible assets	17	**57,870**	44,757
Amortisation of other intangible assets		**501**	315
Loss allowance for impairment of financial receivables	19	**1,801**	–
Loss allowance for impairment of contract assets	23	**403**	–
Loss allowance for impairment of trade receivables	21	**22,459**	3,493
Loss allowance for impairment of other receivables	22	**7,875**	2,058
Lease payments not included in the measurement of lease liabilities	13(c)	**409**	1,582
Auditor's remuneration		**2,850**	3,000
Employee benefit expense (including directors' remuneration):			
Wages, salaries and allowances, social securities and benefits		**229,278**	222,176
Pension scheme contributions (defined contribution scheme)		**5,992**	20,197
Equity-settled share option expenses		**–**	9,158
Total employee benefit expense		**235,270**	251,531
Operating lease income		**(1,469)**	(1,210)
Less: Depreciation of investment properties		**933**	702
Rental income less depreciation of investment properties	5	**(536)**	(508)
Bank interest income	5	**(4,665)**	(4,204)
Government grants	5	**(49,958)**	(75,120)
Interest income from loans to third parties	5	**(18,099)**	(20,658)
Interest income from loans to an associate and joint ventures	5	**(820)**	(6,914)
Investment income from other current financial assets	5	**(26,246)**	(62,910)
Loss on disposal of items of property, plant and equipment, net		**11**	185
Loss on disposal of subsidiaries	33	**708**	13,691
Loss on disposal of a joint venture		**–**	7,414
Foreign exchange differences, net	5	**(5,557)**	1,222

7. FINANCE COSTS

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

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2020 RMB'000	2019 RMB'000
Fees	**1,915**	2,121
Other emoluments:		
Salaries, allowances and benefits in kind	**5,575**	8,607
Equity-settled share option expenses	**–**	2,904
Pension scheme contributions (defined contribution scheme)	**–**	19
Total	**7,490**	13,651

(i) Independent non-executive directors

	2020		2019		
	Fees RMB'000	Total RMB'000	Fees RMB'000	Equity-settled share option expenses RMB'000	Total RMB'000
Mr. Chang Qing (常清)	**319**	**319**	318	161	479
Mr. Peng Yongzhen (彭永臻)	**319**	**319**	318	161	479
Mr. Chau Kam Wing (周錦榮) (a)	**319**	**319**	241	161	402
Mr. Tsui Yiu Wa Alec (徐耀華) (b)	**–**	**–**	90	–	90
	957	**957**	967	483	1,450

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(i) Independent non-executive directors *(continued)*

(a) Mr. Chau Kam Wing was appointed as an independent non-executive director of the Company on 4 April 2019.

(b) Mr. Tsui Yiu Wa Alec resigned from the Company as an independent non-executive director on 4 April 2019.

(ii) Executive directors

	Fees RMB'000	Equity-settled share option expenses RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2020					
Executive directors:					
Mr. Zhao Juanxian (alias, Zhao Junxian) (趙雋賢)	319	–	2,105	–	2,424
Mr. Li Zhong (李中)(a)	213	–	1,518	–	1,731
Mr. Duan Jerry Linnan (段林楠)(a)	213	–	1,388	–	1,601
Ms. Liu Yujie (劉玉杰)(a)	213	–	564	–	777
	958	–	5,575	–	6,533
Year ended 31 December 2019					
Executive directors:					
Mr. Zhao Juanxian (alias, Zhao Junxian) (趙雋賢)	318	–	2,196	–	2,514
Mr. Li Zhong (李中)(a)	161	807	1,019	–	1,987
Mr. Duan Jerry Linnan (段林楠)(a)	161	807	990	–	1,958
Ms. Liu Yujie (劉玉杰)(a)	161	807	404	–	1,372
Mr. Zhang Weizhong (張為眾)(b)	60	–	1,515	–	1,575
Ms. Liu Zhiwei (劉志偉)(b)	113	–	1,248	–	1,361
Mr. Wang Litong (王立彤)(b)	60	–	551	9	620
Mr. Wang Tianci (王天賜)(b)	60	–	684	10	754
Mr. Gu Weiping (顧衛平)(b)	60	–	–	–	60
	1,154	2,421	8,607	19	12,201

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(ii) Executive directors *(continued)*

(a) Mr. Li Zhong, Mr. Duan Jerry Linnan and Ms. Liu Yujie were appointed as executive directors of the Company on 4 April 2019.

(b) Mr. Zhang Weizhong, Ms. Liu Zhiwei, Mr. Gu Weiping, Mr. Wang Litong and Mr. Wang Tianci resigned from the Company as executive directors on 4 April 2019.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2019: five directors), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one highest paid employee during the year ended 31 December 2020 who is neither a director nor a chief executive of the Company are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	1,103	–
Performance related bonuses	247	–
Pension scheme contributions	3	–
	1,353	–

During the year ended 31 December 2020, remuneration of the non-director and non-chief executive highest paid employee fell within the band of HK$1,000,001 to HK$1,500,000.

10. INCOME TAX EXPENSE

Pursuant to The PRC Enterprise Income Tax Law Implementing Regulations (中華人民共和國企業所得稅法實施條例), most of the subsidiaries established in the PRC, engaged in the operations of waste water treatment projects, are eligible for tax holiday of a three-year full exemption followed by a three-year half exemption commencing from their respective first years of generating operating revenue (the "3+3 Tax Holiday"). At the end of the year, these subsidiaries were qualified for the 3+3 Tax Holiday or in the process of preparation and submission of the required documents to the respective tax authorities to apply for the 3+3 Tax Holiday.

Pursuant to Caishui [2011] No.58 *Circular of the Ministry of Finance, the State Administration of Taxation, the General Administration of Customs on Issues Relating to Preferential Tax Policies for the Development of the Western Region* (財政部、國家稅務總局、海關總署關於西部大開發稅收優惠政策問題的通知), certain subsidiaries operated in the western region of Mainland China are subject to a preferential corporate income tax rate of 15%, provided that the main business of the subsidiaries belongs to the industrial projects stipulated in the Catalogue of Encouraged Industries in the Western Region, and such main business income accounts for more than 70% of the total income of the subsidiaries.

Under the relevant PRC Corporate Income Tax Law and respective regulations, except for the preferential treatments available to certain subsidiaries as mentioned above, other subsidiaries within the Group were subject to corporate income tax at the statutory rate of 25%.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.

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

	2020 **RMB'000**	2019 RMB'000
Current		
— Mainland China	**34,249**	41,227
Deferred	**103,033**	84,543
Total tax charge for the year	**137,282**	125,770

10. INCOME TAX EXPENSE *(continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the country in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2020		2019	
	RMB'000	%	RMB'000	%
Profit before tax	607,539		509,841	
Tax at the statutory tax rate	151,885	25.0	127,460	25.0
Lower tax rates for specific provinces or enacted by local authority	(48,679)	(8.0)	(29,328)	(5.7)
Expenses not deductible for tax	1,559	0.2	3,025	0.6
Tax losses not recognised	32,566	5.4	22,341	4.4
Tax losses utilised from previous periods	(3,116)	(0.5)	(2,903)	(0.6)
Reversal of tax losses recognised in previous periods	1,690	0.3	2,923	0.6
Tax effect of disposal of subsidiaries	(485)	(0.1)	2,710	0.5
Profits and losses attributable to joint ventures and associates	1,862	0.3	(458)	(0.1)
Tax charge at the Group's effective rate	137,282	22.6	125,770	24.7

The share of tax attributable to associates and joint ventures amounting to negative RMB838,000 (2019: RMB335,000) is included in "Share of profits and losses of associates" and "Share of profits and losses of joint ventures" in profit or loss.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,100,877,000 (2019: 2,032,385,000) in issue during the year, as adjusted to reflect the rights issue during the year.

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

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

	2020 RMB'000	2019 RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	**470,488**	376,868

	2020 Number of shares	2019 Number of shares
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,100,877,000**	2,032,385,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	**–**	589,000
	2,100,877,000	2,032,974,000

12. PROPERTY, PLANT AND EQUIPMENT

31 December 2020

	Buildings and other infrastructure RMB'000	Machinery RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2020:					
Cost	105,821	47,566	38,050	20,276	211,713
Accumulated depreciation and impairment	(30,405)	(19,618)	(27,018)	–	(77,041)
Net carrying amount	75,416	27,948	11,032	20,276	134,672
At 1 January 2020, net of accumulated depreciation and impairment	75,416	27,948	11,032	20,276	134,672
Additions	–	621	624	2	1,247
Disposals	(269)	–	(573)	–	(842)
Disposal of a subsidiary (note 33)	(180)	(861)	(17)	–	(1,058)
Depreciation provided during the year	(4,991)	(3,368)	(2,112)	–	(10,471)
Transferred to investment properties	(4,076)	–	–	–	(4,076)
Transfer from construction in progress	–	–	876	(876)	–
At 31 December 2020, net of accumulated depreciation and impairment	65,900	24,340	9,830	19,402	119,472
At 31 December 2020:					
Cost	101,206	46,897	38,594	19,402	206,099
Accumulated depreciation and impairment	(35,306)	(22,557)	(28,764)	–	(86,627)
Net carrying amount	65,900	24,340	9,830	19,402	119,472

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

31 December 2019

	Buildings and other infrastructure RMB'000	Machinery RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2019:					
Cost	115,873	47,586	40,657	7,214	211,330
Accumulated depreciation and impairment	(25,160)	(17,146)	(25,857)	–	(68,163)
Net carrying amount	90,713	30,440	14,800	7,214	143,167
At 1 January 2019, net of accumulated depreciation and impairment	90,713	30,440	14,800	7,214	143,167
Additions	–	110	548	3,171	3,829
Disposals	(89)	(79)	(1,257)	–	(1,425)
Disposal of subsidiaries (note 33)	–	–	(2)	–	(2)
Depreciation provided during the year	(5,317)	(2,523)	(3,057)	–	(10,897)
Other transfers	(9,891)	–	–	9,891	–
At 31 December 2019, net of accumulated depreciation and impairment	75,416	27,948	11,032	20,276	134,672
At 31 December 2019:					
Cost	105,821	47,566	38,050	20,276	211,713
Accumulated depreciation and impairment	(30,405)	(19,618)	(27,018)	–	(77,041)
Net carrying amount	75,416	27,948	11,032	20,276	134,672

At 31 December 2020, certain of the Group's buildings with a net carrying amount of approximately RMB15,447,000 (2019: RMB17,274,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 28). As the payments of the land use rights for the buildings cannot be separated reliably from the payments for the purchase of office buildings, the entire payments are included in the costs of the relevant buildings.

Certain infrastructure with a net carrying amount as at 31 December 2020 of approximately RMB11,541,000 (2019: RMB12,180,000) is situated on a piece of land which is legally owned by the non-controlling shareholder of Jilin Kangda Environmental Protection Company Limited ("Jilin Kangda"), a subsidiary of the Group. The subsidiary is contractually authorised to use the land without charge throughout its operating period.

13. LEASES

The Group as a lessee

The Group leases certain office properties and a land property under operating lease arrangements with leases negotiated for terms ranging from 1 to 19 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Land RMB'000	Office RMB'000	Total RMB'000
As at 1 January 2019	1,540	4,847	6,387
Depreciation charge	(75)	(3,051)	(3,126)
As at 31 December 2019 and 1 January 2020	**1,465**	**1,796**	**3,261**
Additions	**–**	**558**	**558**
Depreciation charge	**(75)**	**(1,857)**	**(1,932)**
As at 31 December 2020	**1,390**	**497**	**1,887**

(b) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2020 **RMB'000**	2019 RMB'000
Carrying amount at 1 January	**3,938**	6,387
New leases	**558**	–
Accretion of interest recognised during the year	**237**	312
Covid-19-related rent concessions from lessors	**(89)**	–
Payments	**(2,403)**	(2,761)
Carrying amount at 31 December	**2,241**	3,938
Analysed into:		
Current portion	**(310)**	(1,988)
Non-current portion	**(1,931)**	(1,950)

The maturity analysis of lease liabilities is disclosed in note 41 to the financial statements.

13. LEASES *(continued)*

The Group as a lessee *(continued)*

(b) Lease liabilities *(continued)*

As disclosed in note 2.2 to the financial statements, the Group has early adopted the amendment to IFRS 16 and applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain office properties and a land property during the year.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2020 RMB'000	2019 RMB'000
Interest on lease liabilities	237	312
Depreciation charge of right-of-use assets	1,932	3,126
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December	409	1,582
Covid-19-related rent concessions from lessors	(89)	–
Total amount recognised in profit or loss	2,489	5,020

(d) The total cash outflow for leases relating to leases that has not yet commenced is disclosed in note 34(b), to the financial statements.

The Group as a lessor

The Group leases its investment properties consisting of four commercial properties under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income less depreciation of investment properties recognised by the Group during the year was RMB536,000 (2019: RMB508,000), details of which are included in notes 5 and 6 to the financial statements.

At 31 December 2020, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2020 RMB'000	2019 RMB'000
Within one year	1,440	538
After one year but within two years	1,504	–
After two years but within three years	1,456	–
After three years but within four years	1,325	–
After four years but within five years	628	–
After five years	1,408	–
	7,761	538

14. INVESTMENTS IN ASSOCIATES

	2020 RMB'000	2019 RMB'000
Share of net assets	**364,798**	367,802
Goodwill on acquisition	**10,441**	10,441
	375,239	378,243

Particulars of the associates are as follows:

Company name	Place of incorporation registration and operation	Issued and fully paid-up capital	Percentage of equity interest attributable to the Group	Principal activities
Jiangsu Eastern Biological Sludge Treatment Engineering Co., Ltd. ("Eastern Sludge Treatment") (江蘇東方生態清淤工程有限公司)#	PRC/Mainland China	RMB35,000,000	49	Treatment of sludge in rivers and lakes
Zhongyuan Water Group Co., Ltd. ("Zhongyuan Shuiwu") (中原水務集團有限公司)#	PRC/Mainland China	RMB500,000,000	31	Construction, operation and management of environment protection and infrastructure projects
Fuzhou Fuhe River Investment & Development Co., Ltd. ("Fuzhou Fuhe") (撫州市撫河流域投資開發有限公司)#	PRC/Mainland China	RMB300,000,000	24	Investment, construction, operation and management of municipal projects
Sichuan Kangda Zhonghuan Municipal Engineering Design Co., Ltd. ("Sichuan Zhonghuan") (四川康達中環市政工程設計有限公司)#	PRC/Mainland China	RMB5,000,000	30	Design and consulting of construction projects
Leping Hehu Ecological Environmental Treatment Co., Ltd. ("Leping Hehu") (樂平市河湖生態環境治理有限公司)#	PRC/Mainland China	RMB50,000,000	44	Construction, operation and management of environment protection and infrastructure projects

The names of these companies referred to in this report represent management's best effort at translating the Chinese names of the companies registered in Mainland China, as no English names have been registered.

The percentages of voting power held and profit sharing are the same as the percentages of equity interest attributable to the Group. The Group's shareholdings in the associates comprise equity shares held through wholly-owned subsidiaries of the Company.

14. INVESTMENTS IN ASSOCIATES *(continued)*

The following table illustrates the summarised financial information in respect of some investments in associates, which are individually material, reconciled to their carrying amounts in the consolidated financial statements:

	2020		2019	
	Fuzhou Fuhe RMB'000	Zhongyuan Shuiwu RMB'000	Fuzhou Fuhe RMB'000	Zhongyuan Shuiwu RMB'000
Current assets	775,805	235,969	383,462	196,592
Non-current assets	1,455,160	460,501	1,122,037	489,553
Current liabilities	(250,655)	(78,547)	(374,899)	(23,537)
Non-current liabilities	(1,348,910)	(153,545)	(499,200)	(196,473)
Net assets	631,400	464,378	631,400	466,135
Reconciliation to the Group's interests in the associates:				
Proportion of the Group's ownership	24%	31%	24%	31%
Group's share of net assets of the associates	151,536	143,957	151,536	144,502
Carrying amount of the investments	151,536	143,957	151,536	144,502
Revenue	–	39,541	–	70,365
Profit/(loss) for the year	–	(739)	–	739
Total comprehensive income from the year	–	(739)	–	739

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2020 RMB'000	2019 RMB'000
Share of the associates' profit/(loss) for the year	(2,459)	1,172
Share of the associates' total comprehensive income	(2,459)	1,172
Aggregate carrying amount of the Group's investments in the associates	79,746	82,205

15. INVESTMENTS IN JOINT VENTURES

	2020 RMB'000	2019 RMB'000
Share of net assets	84,159	88,920

Particulars of the joint ventures are as follows:

Company name	Place of registration and operation	Issued and fully paid-up capital	Percentage of equity interest attributable to the Group	Principal activities
Zibo Tianqiyuan Water Supply Co., Ltd. ("Tianqiyuan") (淄博市天齊淵供水有限公司)#	PRC/Mainland China	RMB5,190,000	49	Central water supply
Gaomi Kangrui Environmental Protection Technology Co., Ltd. ("Gaomi Kangrui") (高密市康瑞環保科技有限公司)#	PRC/Mainland China	RMB28,000,000	50	Sale and maintenance of environmental protection equipment

The names of these companies referred to in this report represent management's best effort in translating the Chinese names of the companies registered in Mainland China, as no English names have been registered.

The above investments are held through wholly-owned subsidiaries of the Company.

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2020 RMB'000	2019 RMB'000
Share of the joint ventures' profit/(loss) for the year	(4,761)	431
Share of the joint ventures' total comprehensive income	(4,761)	431
Aggregate carrying amount of the Group's investments in the joint ventures	84,159	88,920

16. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 RMB'000	2019 RMB'000
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value	**338,000**	363,000

During the year, the loss, net of tax, in respect of the Group's equity investments in Zhongyuan Asset Management Co., Ltd. recognised in other comprehensive income amounted to RMB21,250,000 (2019: loss in other comprehensive income amounted to RMB107,100,000).

17. SERVICE CONCESSION INTANGIBLE ASSETS

	2020 RMB'000	2019 RMB'000
Cost at 1 January, net of accumulated amortisation	**802,417**	737,174
Additions	**388,641**	110,000
Amortisation provided during the year	**(57,870)**	(44,757)
At 31 December	**1,133,188**	802,417
At 31 December:		
Cost	**1,293,662**	905,021
Accumulated amortisation	**(160,474)**	(102,604)
Net carrying amount	**1,133,188**	802,417

As at 31 December 2020, the Group's service concession intangible assets with a carrying value of RMB937,310,000 (2019: RMB504,100,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 28).

18. GOODWILL

	Cash-generating units		Total
	Waste water treatment plant	Manufacture of chemicals for waste water treatment	
	RMB'000	RMB'000	RMB'000
2019			
Cost and carrying amount at 1 January 2019	58,325	1,894	60,219
At 31 December 2019	58,325	1,894	60,219
2020			
Cost and carrying amount at 1 January 2020	**58,325**	**1,894**	**60,219**
At 31 December 2020	**58,325**	**1,894**	**60,219**

Impairment testing of goodwill

Goodwill acquired through business combinations in the amount of approximately RMB60,219,000 as at 31 December 2020 has been allocated to the cash-generating units of "waste water treatment plant" and "the manufacture of chemicals for waste water treatment" for impairment testing. The recoverable amounts of the cash-generating units of "waste water treatment plant" and "the manufacture of chemicals for waste water treatment" have been determined based on a value in use calculation using cash flow projections based on a financial budget covering a three-year period approved by the Group. The pre-tax discount rate applied to the cash flow projections is 12.00%.

Assumptions were used in the value in use calculation of the waste water treatment plant and the manufacture of chemicals for waste water treatment cash-generating units for 31 December 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

Price inflation — The basis used to determine the value assigned to price inflation is the forecast price indices during the budget year for the relevant markets.

The values assigned to the key assumptions on market development of waste water treatment plant and the manufacture of chemicals for waste water treatment, discount rates and price inflation are consistent with external information sources.

19. FINANCIAL RECEIVABLES

	2020 RMB'000	2019 RMB'000
Receivables for service concession arrangements	**10,008,498**	9,157,975
Impairment	**(1,801)**	–
	10,006,697	9,157,975
Portion classified as current assets	**(1,692,798)**	(1,643,994)
Non-current portion	**8,313,899**	7,513,981

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

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

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

The increase in the loss allowance was due to the significant changes in the gross carrying amount of the receivables for service concession arrangements mainly attributable to the new completed BOT projects.

Set out below is the information about the credit risk exposure on the Group's financial receivables:

	2020
Expected credit loss rate	0.02%
Gross carrying amount (RMB'000)	10,008,498
Expected credit losses (RMB'000)	1,801

As at 31 December 2020, the Group's financial receivables with a carrying value of RMB7,168,543,000 (2019: RMB5,632,127,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 28).

20. DEFERRED TAX

The deferred tax assets and liabilities recognised by the Group, and the movements thereon, during the year are as follows:

31 December 2020

	Service concession arrangements RMB'000	Transaction costs for interest-bearing bank borrowings and corporate bonds RMB'000	One off deduction of machinery RMB'000	Total RMB'000
Deferred tax liabilities				
At 31 December 2019	(803,341)	(17,169)	(60)	(820,570)
Deferred tax charged to profit or loss during the year	(84,736)	(4,832)	(122)	(89,690)
At 31 December 2020	(888,077)	(22,001)	(182)	(910,260)

	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Impairment of financial and contract assets RMB'000	Losses available for offsetting against future taxable profits RMB'000	Fair value adjustments of the equity investments designated at fair value through other comprehensive income RMB'000	Total RMB'000
Deferred tax assets					
At 31 December 2019	244	2,184	67,051	21,150	90,629
Deferred tax credited to equity during the year	–	–	–	3,750	3,750
Deferred tax charged to profit or loss during the year	(15)	–	(13,328)	–	(13,343)
At 31 December 2020	229	2,184	53,723	24,900	81,036

20. DEFERRED TAX *(continued)*

31 December 2019

	Service concession arrangements RMB'000	Transaction costs for interest-bearing bank borrowings and corporate bonds RMB'000	One off deduction of machinery RMB'000	Total RMB'000
Deferred tax liabilities				
At 31 December 2018	(750,523)	(12,589)	–	(763,112)
Deferred tax liabilities derecognised from the disposal of subsidiaries (note 33)	8,431	–	–	8,431
Deferred tax charged to profit or loss during the year	(61,249)	(4,580)	(60)	(65,889)
At 31 December 2019	(803,341)	(17,169)	(60)	(820,570)

	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Impairment of financial and contract assets RMB'000	Losses available for offsetting against future taxable profits RMB'000	Fair value adjustments of the equity investments designated at fair value through other comprehensive income RMB'000	Total RMB'000
Deferred tax assets					
At 31 December 2018	260	2,184	85,689	2,250	90,383
Deferred tax credited to equity during the year	–	–	–	18,900	18,900
Deferred tax charged to profit or loss during the year	(16)	–	(18,638)	–	(18,654)
At 31 December 2019	244	2,184	67,051	21,150	90,629

20. DEFERRED TAX *(continued)*

The Group also has tax losses arising in Mainland China of RMB280,554,000 (2019: RMB368,621,000) that will expire in one to five years for offsetting against future taxable profits.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2020, no deferred tax liability has been recognised for withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB2,975,947,000 at 31 December 2020 (2019: RMB2,427,119,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

21. TRADE AND BILLS RECEIVABLES

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

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

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

21. TRADE AND BILLS RECEIVABLES *(continued)*

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

At 31 December 2020, the Group's trade receivables with a carrying value of RMB748,253,000 (2019: RMB564,642,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 28).

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

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

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

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

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

21. TRADE AND BILLS RECEIVABLES *(continued)*

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

As at 31 December 2020

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

As at 31 December 2019

	Within 3 months	4 to 6 months	7 to 12 months	Over 12 months	Total
Expected credit loss rate	0.01%	0.04%	0.05%	1.21%	0.53%
Gross carrying amount (RMB'000)	502,150	131,053	149,625	587,039	1,369,867
Expected credit losses (RMB'000)	50	52	75	7,088	7,265

22. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020 RMB'000	2019 RMB'000
Loans to third parties	**230,000**	260,000
Loans to a joint venture	**17,334**	15,392
Deposits	**56,598**	56,831
Prepayments	**53,382**	66,624
Deductible input VAT	**238,722**	204,697
Staff advances	**3,706**	11,087
Other receivables	**210,500**	236,596
	810,242	851,227
Impairment allowance	**(19,080)**	(11,333)
	791,162	839,894
Portion classified as current assets	**(617,705)**	(608,392)
Non-current portion	**173,457**	231,502

22. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS *(continued)*

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

	2020 RMB'000	2019 RMB'000
At beginning of the year	**11,333**	9,275
Impairment losses	**7,875**	2,058
Amount written off as uncollectible	**(128)**	–
At end of the year	**19,080**	11,333

An impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2020, the probability of default applied ranged from 0.94% to 2.00% (2019: 0.85% to 1.33%) and the loss given default was estimated to be 100% (2019: 100%). Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of RMB19,080,000 (2019: RMB11,333,000) with a carrying amount before provision of RMB357,034,000 (2019: RMB321,990,000).

Apart from described above, the financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2020 and 2019, the loss allowance was assessed to be minimal.

23. CONTRACT ASSETS

	31 December 2020 RMB'000	31 December 2019 RMB'000
Contract assets arising from:		
Construction services	**2,297,650**	2,249,371
Impairment	**(403)**	–
	2,297,247	2,249,371
Proportion classified as current assets	**(222,337)**	(222,236)
Non-current portion	**2,074,910**	2,027,135

Contract assets are initially recognised for revenue earned from construction services as the receipt of consideration is conditional on successful completion of construction. Included in contract assets for construction services are retention receivables. Upon completion of installation or construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables or financial receivables. The increase in contract assets in 2020 was mainly due to the increase of construction services.

23. CONTRACT ASSETS *(continued)*

During the year ended 31 December 2020, RMB403,000 (2019: Nil) was recognised as an allowance for expected credit losses on contract assets. The increase in the loss allowance was due to the significant changes in the gross carrying amount of the amounts due from contract customers mainly attributable to the new ongoing BOT projects.

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

Set out below is the information about the credit risk exposure on the Group's contract assets:

	2020
Expected credit loss rate	0.02%
Gross carrying amount (RMB'000)	2,297,650
Expected credit losses (RMB'000)	403

At 31 December 2020, the Group's contract assets with a carrying value of RMB552,464,000 (2019: RMB966,725,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 28).

Included in the Group's contract assets are amounts due from the Group's associates of RMB4,413,000, which are repayable on credit terms similar to those offered to the major customers of the Group.

24. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets were restricted financial assets related to the financing arrangements of corporate bonds of the Group.

Other current financial assets are measured at amortised cost. During the year, the investment income recognised in profit or loss amounted to RMB26,246,000 (note 5). As at 31 December 2020 and 2019, there was no loss allowance.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2020 RMB'000	2019 RMB'000
Cash and bank balances	645,812	388,839
Less: Pledged deposits	(215,550)	(163,167)
Cash and cash equivalents	430,262	225,672
Cash and bank balances denominated in:		
— RMB	425,446	201,437
— United States dollars	3,268	23,059
— Hong Kong dollars	1,548	1,176
Cash and cash equivalents	430,262	225,672

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of cash and cash equivalents and pledged deposits in the consolidated statement of financial position approximate to their fair values.

At 31 December 2020, the Group's pledged deposits with a carrying value of nil (2019: RMB8,100,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 28).

At 31 December 2020, the Group's bills payable were secured by the pledged deposits amounting to RMB169,305,000 (2019: RMB122,713,000) (note 26).

26. TRADE AND BILLS PAYABLES

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

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

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

Notes:

(a) As at 31 December 2020, the Group's bills payable were secured by the pledged deposits amounting to RMB169,305,000 (2019: RMB122,713,000).

(b) TOT payables represented amounts due to the Grantors based on payment schedules set out in the relevant TOT contracts at the end of the year.

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

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

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

27. OTHER PAYABLES AND ACCRUALS

	2020 RMB'000	2019 RMB'000
Amounts due to related parties (note (a))	64,884	83,970
Payables for the acquisitions	62,499	120,933
Contract liabilities (note (b))	26,622	18,621
Salary and welfare payable (note (c))	18,000	13,205
Other taxes payables	9,795	8,960
Interest payables	–	43,348
Other payables	58,379	71,531
	240,179	360,568
Portion classified as current other payables and accruals	(217,116)	(342,121)
Non-current portion	23,063	18,447

Notes:

(a) The amounts mainly represent borrowings provided by the associate, Zhongyuan Shuiwu, and the non-controlling shareholders of Huizhou Kangda Yingzhihuang Water Co., Ltd. (惠州康達英之皇水務有限公司) ("Huizhou Kangda"), which is a non-wholly-owned subsidiary of the Group, and Jilin Kangda, to finance the construction of property, plant and equipment of Huizhou Kangda and Jilin Kangda.

(b) Details of contract liabilities are as follows:

	2020 RMB'000	2019 RMB'000
Construction services	23,231	18,621
Advance from sales of water purifying materials	3,391	–
Total contract liabilities	26,622	18,621

Contract liabilities include advances received to deliver industrial products and render installation and construction services. The increase in contract liabilities in 2020 was mainly due to the increase in advances received from customers in relation to the operating services of waste water treatment and sludge treatment at the end of the year.

(c) The salary and welfare payables are non-interest-bearing and are payable on demand. Other payables are non-interest-bearing and have no fixed terms of repayment.

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2020			31 December 2019		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Lease liabilities (note 13(b))	4.91	2021	310	4.91	2020	1,988
Bank loans						
— unsecured	3.85–4.90	2021	38,043	4.87–8.00	2020	285,000
Bank loans						
— secured	4.35–6.72	2021	986,204	3.92–8.47	2020	1,964,975
Other loans						
— unsecured	–	–	–	4.15	2020	4,000
Current portion of long term other loans						
— secured	4.50–9.90	2021	302,533	5.78–9.90	2020	241,318
Current portion of long term bank loans						
— secured	3.75–6.18	2021	582,369	4.75–6.56	2020	725,118
Current portion of long term other loans						
— unsecured	4.20–7.80	2021	24,913	–	–	–
			1,934,372			3,222,399
Non-current						
Lease liabilities (note 13(b))	4.91	2022–2039	1,931	4.91	2021–2039	1,950
Long term other loans						
— unsecured	1.20–7.80	2022–2026	595,000	1.20–7.50	2021–2026	236,105
Long term other loans						
— secured	2.80–9.90	2022–2026	1,141,220	2.80–9.90	2021–2026	887,959
Long term bank loans						
— secured	3.75–6.18	2022–2045	4,368,344	4.75–6.56	2021–2045	3,284,192
Long term bank loans						
— unsecured	4.55–4.99	2022–2023	647,676	–	–	–
			6,754,171			4,410,206
			8,688,543			7,632,605
Interest-bearing bank and other borrowings denominated in						
— RMB			8,313,318			7,564,099
— Hong Kong dollars			–			38,071
— United States dollars			375,225			30,435
			8,688,543			7,632,605

28. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

	2020 RMB'000	2019 RMB'000
Analysed into:		
Interest-bearing bank and other borrowings repayable:		
Within one year	**1,934,372**	3,222,399
In the second year	**2,189,312**	814,596
In the third to fifth years, inclusive	**1,928,371**	1,994,739
Beyond five years	**2,636,488**	1,600,871
	8,688,543	7,632,605

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

	2020 RMB'000	2019 RMB'000
Property, plant and equipment (note 12)	**15,447**	17,274
Financial receivables (note 19)	**7,168,543**	5,632,127
Trade and bills receivables (note 21)	**748,253**	564,642
Pledged deposits (note 25)	**–**	8,100
Service concession intangible assets (note 17)	**937,310**	504,100
Contract assets (note 23)	**552,464**	966,725

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

The Group's interest-bearing bank and other borrowings of RMB1,427,068,000 (2019: RMB1,967,485,000) were secured by the second largest shareholder (note 38).

29. CORPORATE BONDS

As at 31 December 2020, the carrying amount of bonds issued on 13 June 2018 by Chongqing Kangda was RMB311,287,000 with a maturity date on 13 June 2021 and an interest rate of 7.5% per annum.

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

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

30. SHARE CAPITAL

Shares

	2020 RMB'000	2019 RMB'000
Authorised: 5,000,000,000 (2019: 5,000,000,000) ordinary shares of HK$0.01 each	39,766	39,766
Issued and fully paid: 2,139,735,000 (2019: 2,032,385,000) ordinary shares of HK$0.01 each	17,125	16,143

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Issued capital RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2020	2,032,385,000	16,143	1,643,661	1,659,804
Share options exercised during the year	107,350,000	982	73,723	74,705
At 31 December 2020	2,139,735,000	17,125	1,717,384	1,734,509

31. SHARE OPTION SCHEME

On 13 November 2019 (the "Date of Grant"), the Company granted a total of 115,500,000 share options to subscribe for a total of 115,500,000 ordinary shares in the share capital of the Company (the "Shares" and each a "Share"), subject to acceptance of the grantees (the "Grantees"), under the share option scheme ("Share Option Scheme") adopted by the Company on 14 June 2014.

The purpose of the Share Option Scheme is to give the key staff an opportunity to have a personal stake in the Company and help motivate them to optimise their future performance and efficiency to the Group and to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of management staff, to enable the Group to attract and retain individuals with experience and ability.

All of the share options were exercisable at any time during the period commencing from the Date of Grant and ending on 13 May 2020 (both days inclusive). Each Share Option Scheme award granted pursuant to the Share Option Scheme has the same terms and conditions.

The exercise price of Share Options is HK$0.76 per Share, which represents the highest of: (i) the nominal value of the Share; (ii) the closing price of HK$0.76 per Share as stated in the daily quotation sheet issued by the Stock Exchange on the Date of Grant; and (iii) the average closing price of HK$0.756 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the Date of Grant.

The following share options were outstanding under the Share Option Scheme during the year:

	2020		2019	
	Exercise price HK$ per share	**Number of options '000**	Exercise price HK$ per share	Number of options '000
At 1 January	**0.76**	**113,500**	–	–
Granted during the year	**–**	**–**	0.76	115,500
Exercised during the year	**0.76**	**(107,350)**	–	–
Forfeited during the year	**–**	**–**	0.76	(2,000)
Expired during the year	**0.76**	**(6,150)**	–	–
At 31 December	**0.76**	**–**	0.76	113,500

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.81 per share (2019: No share options were exercised).

31. SHARE OPTION SCHEME *(continued)*

The fair value of share options granted during the year ended 31 December 2019 was HK$10,403,000 (HK$0.09 each), of which the Group recognised a share option expense of RMB9,158,000 during the year ended 31 December 2019.

The fair value of equity-settled share options granted during the year ended 31 December 2019 was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2019
Dividend yield (%)	3.5
Expected volatility (%)	43.93
Historical volatility (%)	43.93
Risk-free interest rate (%)	1.97
Expected life of options (year)	0.5
Annual employee retaining rate (%)	100

The expected life of the options is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The historical volatility is set by the annualised volatility of the Company.

No other features of the options granted were incorporated into the measurement of fair value.

The 107,350,000 share options exercised during the year resulted in the issue of 107,350,000 ordinary shares of the Company and new share capital of RMB982,000, as further detailed in note 30 to the financial statements.

32. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 62 and page 63 of the consolidated financial statements.

33. DISPOSAL OF SUBSIDIARIES

In 2020, Chongqing Kangda disposed of its entire 70% interest in Guangdong Kangda Ecological Environmental Protection Industry Development Co., Ltd., referred to as "Guangdong Kangda". (In 2019, Chongqing Kangda disposed of its entire 100% interest in Ji'an Kangda Water Co., Ltd. and its entire 60% interest in Hebi Kangda Water Co., Ltd., collectively referred to as "Two companies").

	Notes	Guangdong Kangda 2020 RMB'000	Two companies 2019 RMB'000
Property, plant and equipment	12	1,058	2
Contract assets		–	81,943
Trade and bills receivables		2,497	21
Prepayments, other receivables and other assets		120	267
Cash and cash equivalents		3	4,029
Trade and bills payables		–	(2,480)
Other payables and accruals		(1,452)	(37,435)
Deferred tax liabilities	20	–	(8,431)
		2,226	37,916
Group's share of net assets of disposed subsidiaries		1,558	22,842
Loss on disposal		(708)	(13,691)
		850	9,151
Satisfied by:			
Cash		850	9,151
Cash consideration received		850	9,151
Cash and bank balances disposed of		(3)	(4,029)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries		847	5,122

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB558,000 (2019: Nil) and RMB558,000 (2019: Nil), respectively, in respect of lease arrangements for office properties.

(b) Changes in liabilities arising from financing activities

2020

	Interest-bearing bank and other borrowings RMB'000	Lease liabilities RMB'000	Corporate bonds RMB'000	Other payables and accruals* RMB'000
At 1 January 2020	7,628,667	3,938	1,476,789	108,870
Changes from financing cash flows	1,015,846	(2,403)	(915,994)	(15,582)
New leases	–	558	–	–
Foreign exchange movement	(2,314)	–	–	–
Interest expense	484,890	237	76,654	–
Interest paid classified as financing cash flows	(440,787)	–	(53,202)	(43,348)
Covid-19-related rent concessions from lessors	–	(89)	–	–
At 31 December 2020	8,686,302	2,241	584,247	49,940

* Other payables and accruals mainly represent interest payable, dividend payable, and certain borrowings provided by related parties.

2019

	Interest-bearing bank and other loans RMB'000	Lease liabilities RMB'000	Corporate bonds RMB'000	Interest payable RMB'000	Dividend payable RMB'000
At 1 January 2019	7,095,920	6,387	2,140,499	53,993	1,178
Changes from financing cash flows	531,362	(2,761)	(675,994)	(567,874)	–
Foreign exchange movement	1,385	–	–	–	–
Amortised cost	–	–	12,284	–	–
Interest expense	–	312	–	557,229	–
At 31 December 2019	7,628,667	3,938	1,476,789	43,348	1,178

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020 RMB'000	2019 RMB'000
Within financing activities	2,403	2,761

35. CONTINGENT LIABILITIES

At the end of the year, the Group did not have any significant contingent liabilities.

36. PLEDGE OF ASSETS

Details of the Group's bank and other loans, which are secured by the assets of the Group, are included in note 28 to the consolidated financial statements.

37. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2020 RMB'000	2019 RMB'000
Contracted, but not provided for	175,575	235,333

The Group had the following commitments with respect to service concession arrangements at the end of the year:

	2020 RMB'000	2019 RMB'000
Contracted, but not provided for	2,775,662	3,638,436

38. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

	2020 RMB'000	2019 RMB'000
Certain expenses of the Group paid by a subsidiary of the shareholder:		
Shanghai Silver Dragon (i)	–	691
Certain expenses of the Group paid by an associate:		
Zhongyuan Shuiwu	15,075	8,359
Certain loans of the Group borrowed from an associate:		
Zhongyuan Shuiwu	83,855	49,157
Certain expenses paid by the Group for non-controlling shareholders of:		
Shenyang Jinhai	1,100	–
Xinzhongzhou Water and Xinzheng Xinkang	1,000	1,000
Jiaoling Kangda	217	464
Pingdingshan City Bay	100	–
Services provided to associates and a joint venture:		
Fuzhou Fuhe	147,274	123,326
Zhongyuan Shuiwu	33,303	34,718
Leping Hehu	72,399	–
Gaomi Kangrui	869	915
Services provided by an associate:		
Eastern Sludge Treatment	300	24,684
Services provided by a subsidiary of a shareholder:		
Jiangxi Silver Dragon (ii)	98,255	–
Services provided by the non-controlling shareholder of:		
Jiaoling Kangda	1,740	1,040

(i) Shanghai Silver Dragon Equity Investment Co., Ltd. (上海銀龍股權投資有限公司) ("Shanghai Silver Dragon") is a subsidiary of the largest shareholder of the Group.

(ii) Jiangxi Silver Dragon Water Environment Construction Co., Ltd. (江西銀龍水環境建設有限責任公司) ("Jiangxi Silver Dragon") is a subsidiary of the largest shareholder of the Group.

38. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

These related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The Group is contractually authorised to use a piece of land which is legally owned by the non-controlling shareholder of Jilin Kangda without charge, and such use also constitutes a related party transaction during the year. Meanwhile, the Group is also authorised to use certain infrastructure without charge which is legally owned and provided by the non-controlling shareholder of Xinzhongzhou Water.

The Group's interest-bearing bank and other borrowings in 2020 amounting to RMB1,427,068,000 (2019: RMB1,967,485,000) were secured by the second largest shareholder (note 28).

The above related party transactions were conducted in accordance with the terms mutually agreed between the parties.

(b) Outstanding balances with related parties

	2020 RMB'000	2019 RMB'000
Amounts due to non-controlling shareholders of:		
Pingdingshan City Bay	50,337	50,337
Jilin Kangda	11,000	11,000
Huizhou Kangda	4,162	15,344
Xinzhongzhou Water and Xinzheng Xinkang	2,510	2,510
Jiaoling Kangda	1,478	1,040
Amounts due to associates:		
Zhongyuan Shuiwu	49,612	57,516
Eastern Sludge Treatment	9,622	9,723
Amounts due to the subsidiaries of a shareholder:		
Jiangxi Silver Dragon	55,305	–
Shanghai Silver Dragon	–	691

38. RELATED PARTY TRANSACTIONS *(continued)*

(b) Outstanding balances with related parties *(continued)*

	2020 RMB'000	2019 RMB'000
Amounts due from non-controlling shareholders of:		
Xinzhongzhou Water and Xinzheng Xinkang	**18,094**	17,094
Pingdingshan City Bay	**10,749**	10,649
Weihai Kangda	**43**	43
Jiaoling Kangda	**1,187**	970
Shenyang Jinhai	**1,100**	–
Amounts due from associates:		
Zhongyuan Shuiwu	**132,758**	203,889
Fuzhou Fuhe	**67,100**	81,972
Leping Hehu	**29,809**	19,272
Amounts due from joint ventures:		
Tianqiyuan	**22,575**	22,575
Gaomi Kangrui	**17,334**	16,465

(c) Compensation of key management personnel of the Group

	2020 RMB'000	2019 RMB'000
Short term employee benefits	**1,353**	1,326
Equity-settled share option expenses	**–**	484
Post-employment benefits	**–**	125
Total compensation paid to key management personnel	**1,353**	1,935

Further details of directors' emoluments are included in note 8 to the consolidated financial statements.

39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

31 December 2020

Financial assets

	Financial assets at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	338,000	–	338,000
Loans to a joint venture	–	17,334	17,334
Financial receivables	–	10,006,697	10,006,697
Trade and bills receivables	–	1,527,023	1,527,023
Financial assets included in prepayments, other receivables and other assets	–	653,673	653,673
Pledged deposits	–	215,550	215,550
Cash and cash equivalents	–	430,262	430,262
	338,000	12,850,539	13,188,539

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	2,059,928	2,059,928
Financial liabilities included in other payables and accruals	199,116	199,116
Interest-bearing bank and other borrowings	8,688,543	8,688,543
Corporate bonds	584,247	584,247
	11,531,834	11,531,834

39. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(continued)*

31 December 2019

Financial assets

	Financial assets at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	363,000	–	363,000
Loans to a joint venture	–	15,392	15,392
Financial receivables	–	9,157,975	9,157,975
Trade and bills receivables	–	1,363,602	1,363,602
Financial assets included in prepayments, other receivables and other assets	–	712,760	712,760
Pledged deposits	–	163,167	163,167
Cash and cash equivalents	–	225,672	225,672
	363,000	11,638,568	12,001,568

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	1,782,978	1,782,978
Financial liabilities included in other payables and accruals	328,742	328,742
Interest-bearing bank and other borrowings	7,632,605	7,632,605
Corporate bonds	1,476,789	1,476,789
	11,221,114	11,221,114

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2020 RMB'000	2019 RMB'000	**2020 RMB'000**	2019 RMB'000
Financial assets				
Equity investments designated at fair value through other comprehensive income	**338,000**	363,000	**338,000**	363,000
Prepayments, other receivables and other assets, non-current portion	**148,590**	211,423	**166,353**	214,333
Financial receivables, non-current portion	**8,313,899**	7,513,981	**8,375,726**	7,569,810
	8,800,489	8,088,404	**8,880,079**	8,147,143
Financial liabilities				
Trade and bills payables, non-current portion	**1,756**	3,624	**1,676**	3,458
Interest-bearing bank and other borrowings (other than lease liabilities) , non-current portion	**6,754,171**	4,410,206	**6,918,418**	4,621,837
Non-current corporate bonds	**256,985**	569,366	**256,985**	569,366
	7,012,912	4,983,196	**7,177,079**	5,194,661

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, other current financial assets, the current portion of financial receivables, the current portion of trade and bills payables, the current portion of financial assets included in prepayments, other receivables and other assets, the current portion of loans to joint ventures and associates, the current portion of financial liabilities included in other payables and accruals, and the current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value disclosure of financial instruments. The finance manager reports directly to the chief financial officer. At the end of the year, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of financial receivables, contract assets, prepayments, other receivables and other assets, trade and bills payables, interest-bearing bank and other borrowings, and corporate bonds have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risks for trade and bills payables, interest-bearing bank and other borrowings, and corporate bonds as at the end of the year were assessed to be insignificant.

The fair values of unlisted equity investments designated at fair value through other comprehensive income have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as price to book value (P/B), for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by book value measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding P/B of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	338,000	–	338,000

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy *(continued)*

Assets measured at fair value: *(continued)*

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	363,000	–	363,000

Assets for which fair values are disclosed:

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Prepayments, other receivables and other assets, non-current portion	**–**	**166,353**	**–**	**166,353**
Financial receivables, non-current portion	**–**	**8,375,726**	**–**	**8,375,726**
	–	**8,542,079**	**–**	**8,542,079**

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy *(continued)*

Assets for which fair values are disclosed: *(continued)*

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Prepayments, other receivables and other assets, non-current portion	–	214,333	–	214,333
Financial receivables, non-current portion	–	7,569,810	–	7,569,810
	–	7,784,143	–	7,784,143

Liabilities for which fair values are disclosed:

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Trade and bills payables, non-current portion	**–**	**1,676**	**–**	**1,676**
Interest-bearing bank and other borrowings (other than lease liabilities), non-current portion	**–**	**6,918,418**	**–**	**6,918,418**
Non-current corporate bonds	**–**	**256,985**	**–**	**256,985**
	–	**7,177,079**	**–**	**7,177,079**

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy *(continued)*

Liabilities for which fair values are disclosed: *(continued)*

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Trade and bills payables, non-current portion	–	3,458	–	3,458
Interest-bearing bank and other borrowings (other than lease liabilities), non-current portion	–	4,621,837	–	4,621,837
Non-current corporate bonds	–	569,366	–	569,366
	–	5,194,661	–	5,194,661

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, corporate bonds, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as financial receivables, trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency risk. Generally, the senior management of the Company meets regularly to analyse and formulate measures to manage the Group's exposure to these risks. In addition, the board of directors of the Company holds meetings regularly to analyse and approve the proposals made by the senior management of the Company. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors of the Company reviews and agrees policies for managing these risks and they are summarised below.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group regularly reviews and monitors the mix of fixed and floating interest rate borrowings in order to manage its interest rate risk. The Group's interest-bearing bank and other borrowings, corporate bonds, pledged deposits and cash and cash equivalents are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

If there would be a general increase/decrease in the market interest rates by one percentage point, with all other variables held constant, the Group's consolidated pre-tax profit would have decreased/increased by approximately RMB48,845,000 and RMB45,875,000 for the years ended 31 December 2020 and 2019, respectively, and there would be no impact on other components of the consolidated equity, except for retained profits, of the Group. The sensitivity analysis above has been determined assuming that the change in market interest rates had occurred at the end of the year and had applied the exposure to interest rate risk to those financial instruments in existence at that date.

(b) Credit risk

The carrying amounts of cash and cash equivalents, pledged deposits, trade and bills receivables, financial receivables and financial assets included in prepayments, other receivables and other assets represent the Group's maximum exposure to credit risk in relation to these financial assets. Substantially all of the Group's cash and cash equivalents and pledged deposits are held in major financial institutions located in Mainland China and Hong Kong, which management believes are of high credit quality. The Group has policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the credit exposure to each financial institution to an acceptable level.

The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

As the Group's major customers are either PRC government authorities or agencies at the provincial and local levels or other state-owned enterprises, the Group believes that they are reliable and of high credit quality and hence, there is no significant credit risk with these customers. The senior management of the Company keeps reviewing and assessing the creditworthiness of the Group's existing customers on an ongoing basis.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 21 to the financial statements.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(c) Liquidity risk

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure.

The maturity profile of the Group's financial liabilities at the end of the year, based on the contractual undiscounted payments, is as follows:

	31 December 2020				
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
Lease liabilities	318	318	486	1,609	2,731
Interest-bearing bank and other borrowings (excluding lease liabilities)	2,199,021	1,723,857	2,770,857	2,286,495	8,980,230
Corporate bonds	358,975	35,275	104,344	251,556	750,150
Trade and bills payables	2,058,172	1,756	–	–	2,059,928
Financial liabilities included in other payables and accruals	199,116	–	–	–	199,116
	4,815,602	1,761,206	2,875,687	2,539,660	11,992,155

	31 December 2019				
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
Lease liabilities	2,020	118	353	1,727	4,218
Interest-bearing bank and other borrowings (excluding lease liabilities)	3,426,585	1,272,594	2,260,205	1,470,303	8,429,687
Corporate bonds	1,023,175	358,975	104,206	286,969	1,773,325
Trade and bills payables	1,779,354	3,624	–	–	1,782,978
Financial liabilities included in other payables and accruals	328,742	–	–	–	328,742
	6,559,876	1,635,311	2,364,764	1,758,999	12,318,950

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(d) Foreign currency risk

The Group has minimal transactional currency exposures as the majority of the subsidiaries of the Group operates in the PRC with most of the transactions denominated and settled in Renminbi ("RMB").

In addition, the Group has currency exposures from its cash and cash equivalents and interest-bearing bank borrowings. The Group manages foreign currency risk by closely monitoring the proportion of its non-Renminbi borrowings and assets.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB/HK$ and RMB/USD exchange rates, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2020		
If the RMB weakens against the USD by 5%	**(18,598)**	**(18,598)**
If the RMB strengthens against the USD by 5%	**18,598**	**18,598**
If the RMB weakens against the HK$ by 5%	**77**	**77**
If the RMB strengthens against the HK$ by 5%	**(77)**	**(77)**
2019		
If the RMB weakens against the USD by 5%	(369)	(369)
If the RMB strengthens against the USD by 5%	369	369
If the RMB weakens against the HK$ by 5%	(1,845)	(1,845)
If the RMB strengthens against the HK$ by 5%	1,845	1,845

* Excluding retained profits

(e) Capital management

The Group's primary objectives for managing capital are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratio in order to support its business and maximise shareholders' value.

The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. 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 debts. No change was made in the objectives, policies or processes for managing capital during the year.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(e) Capital management *(continued)*

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes trade and bills payables, certain other payables and accruals, interest-bearing bank and other borrowings, corporate bonds less cash and cash equivalents and pledged deposits. Capital includes the equity attributable to owners of the parent and non-controlling interests as stated in the consolidated statement of financial position.

The Group's strategy is to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary. The gearing ratios at the end of the years were as follows:

	2020 RMB'000	2019 RMB'000
Trade and bills payables (note 26)	**2,059,928**	1,782,978
Other payables and accruals (note 27)	**240,179**	360,568
Interest-bearing bank and other borrowings (note 28)	**8,688,543**	7,632,605
Corporate bonds (note 29)	**584,247**	1,476,789
Less: Cash and cash equivalents (note 25)	**(430,262)**	(225,672)
Less: Pledged deposits (note 25)	**(215,550)**	(163,167)
Net debt	**10,927,085**	10,864,101
Total equity	**5,118,198**	4,594,152
Capital and net debt	**16,045,283**	15,458,253
Gearing ratio	**68%**	70%

42. EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to 31 December 2020.

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	1,217,802	1,217,802
Total non-current assets	1,217,802	1,217,802
CURRENT ASSETS		
Prepayments, other receivables and other assets	1,059,121	748,604
Cash and cash equivalents	2,431	318
Total current assets	1,061,552	748,922
CURRENT LIABILITIES		
Other payables and accruals	199,505	229,011
Total current liabilities	199,505	229,011
NET CURRENT ASSETS	862,047	519,911
TOTAL ASSETS LESS CURRENT LIABILITIES	2,079,849	1,737,713
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	347,676	–
Net assets	1,732,173	1,737,713
EQUITY		
Issued capital	17,125	16,143
Reserves	1,715,048	1,721,570
Total equity	1,732,173	1,737,713

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	**Share option reserve** RMB'000	**Retained profits/ (accumulated losses)** RMB'000	**Total** RMB'000
At 1 January 2019	1,643,661	56,395	8,707	1,708,763
Equity-settled share option scheme	–	9,158	–	9,158
Profit for the year	–	–	3,649	3,649
At 31 December 2019 and 1 January 2020	1,643,661	65,553	12,356	1,721,570
Share options exercised during the year	73,723	–	–	73,723
Loss for the year	–	–	(80,245)	(80,245)
At 31 December 2020	1,717,384	65,553	(67,889)	1,715,048

44. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 25 March 2021.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and total equity of the Group for the last five financial years is as set below:

RESULTS

	Year ended 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**3,332,432**	2,815,203	3,021,327	2,523,940	1,926,502
Profit before tax	**607,539**	509,841	455,691	536,796	437,392
Income tax	**137,282**	125,770	145,801	109,187	91,400
Profit for the year	**470,257**	384,071	309,890	427,609	345,992
Other comprehensive income	**(21,250)**	(107,100)	(112,200)	99,450	14,395
Total comprehensive income for the year	**449,007**	276,971	197,690	527,059	360,387
PROFIT ATTRIBUTABLE TO:					
Shareholders of the Company	**470,488**	376,868	303,350	414,448	334,577
Non-controlling interests	**(231)**	7,203	6,540	13,161	11,415
	470,257	384,071	309,890	427,609	345,992
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Shareholders of the Company	**449,238**	269,768	191,150	513,898	348,972
Non-controlling interests	**(231)**	7,203	6,540	13,161	11,415
	449,007	276,971	197,690	527,059	360,387

FINANCIAL SUMMARY

ASSETS, LIABILITIES AND TOTAL EQUITY

	As at 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**17,645,830**	16,698,491	16,525,227	15,235,594	11,160,451
Total liabilities	**12,527,632**	12,104,339	12,203,554	11,028,733	7,467,284
NET ASSETS	**5,118,198**	4,594,152	4,321,673	4,206,861	3,693,167
Equity attributable to shareholders of the Company	**4,918,730**	4,395,102	4,114,653	4,003,314	3,546,985
Non-controlling interests	**199,468**	199,050	207,020	203,547	146,182
TOTAL EQUITY	**5,118,198**	4,594,152	4,321,673	4,206,861	3,693,167