



Annual Report 2021



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

- I. The board of directors (the “**Board**”), supervisory committee (the “**Supervisory Committee**”), directors (the “**Directors**”), supervisors (the “**Supervisors**”) and senior management of Tianjin Capital Environmental Protection Group Company Limited (the “**Company**”) confirm that the information in this annual report contains no false information, misleading statements or material omissions, and accept joint and several responsibilities for the truthfulness, accuracy and completeness of its contents.
- II. All Directors of the Company attended the Board meetings.
- III. PricewaterhouseCoopers Zhong Tian LLP have issued standard unqualified audit reports of the Company.
- IV. Liu Yujun, the officer in charge of the Company, Jing Wanying, the officer in charge of the accounting function, and Liu Tao, the officer in charge of the accounting department (the accounting management officer), have declared that they are responsible for the truthfulness, accuracy and completeness of the financial reports contained in the 2021 annual report.
- V. The proposal on profit distribution or transfer of capital reserve fund to share capital for the reporting period as reviewed by the Board

As audited by PricewaterhouseCoopers Zhong Tian LLP, the actual profit available for distribution to shareholders in this year was RMB4,577,680,726.37, which was calculated based on the net profit attributable to the Company of RMB693,187,998.85 in 2021, less the statutory surplus reserve fund of RMB58,281,246.28 drawn in accordance with the Company Law of the People’s Republic of China and relevant provisions of the Articles of Association, plus the retained earnings at the beginning of the year of RMB4,114,041,385.40, and less the cash dividend of RMB171,267,411.60 already distributed in 2021 for 2020.

According to the profit distribution policy of the Company, considering that the Company is still in the development stage and that priority shall be given to the capital expenditure arrangement for the development of external projects in 2022, the Company plans to pay a cash dividend of RMB1.46 (tax inclusive) for every 10 shares to all shareholders in 2021, totaling RMB208,375,350.78, with the cash dividend amount accounting for 30.06% of the realisable profit attributable to the Company for distribution in 2021. In 2021, there was no conversion of reserve fund into additional capital stock.

This distribution plan is subject to the approval of the annual general meeting for 2021.

- VI. Risk statements for the forward-looking statements

Not applicable

Important

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

No

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

No

IX. Significant risks warning

Not applicable

X. Others

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

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1. Definitions

I. DEFINITIONS

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

“Anguo Company”	Anguo Capital Water Co., Ltd.* (安國創業水務有限公司)
“Anhui Company”	Anhui Tianchuang Water Co., Ltd.* (安徽天創水務有限公司)
“Baoying Company”	Baoying Capital Water Co., Ltd.* (寶應創業水務有限責任公司)
“Bayannur Company”	Inner Mongolia Bayannur Capital Water Co., Ltd.* (內蒙古巴彥淖爾創業水務有限責任公司)
“Bohai Chemical”	Tianjin Bohai Chemical Industry (Group) Co., Ltd.
“Capital Materials Company”	Tianjin Capital New Materials Co., Ltd.* (天津創業建材有限公司)
“Caring Company”	Tianjin Caring Technology Development Co., Ltd.* (天津凱英科技發展股份有限公司)
“Changsha Tianchuang Environmental Protection”	Changsha Tianchuang Environmental Protection Co., Ltd.* (長沙天創環保有限公司)
“Changsha Tianchuang Water”	Changsha Tianchuang Water Co., Ltd.* (長沙天創水務有限公司)
“Chibi Company”	Chibi Capital Water Co., Ltd.* (赤壁創業水務有限公司)
“Company”	Tianjin Capital Environmental Protection Group Company Limited
“Compro Company”	Gaoyou Compro Environmental Resources Co., Ltd.* (高郵康博環境資源有限公司)
“CSRC”	the China Securities Regulatory Commission
“Dalian Chunliuhe Company”	Dalian Oriental Chunliuhe Water Quality Purification Co., Ltd.* (大連東方春柳河水質淨化有限公司)

“Deqing Company”	Deqing Capital Water Co., Ltd.* (德清創業水務有限公司)
“Dongying Company”	Dongying Tianchi Environmental Technology Co., Ltd.* (東營天馳環保科技 有限公司)
“Fuyang Company”	Fuyang Capital Water Co., Ltd.* (阜陽創業水務有限公司)
“Group”	Tianjin Capital Environmental Protection Group Company Limited and its subsidiaries
“Guizhou Company”	Guizhou Capital Water Co., Ltd.* (貴州創業水務有限公司)
“Guokong Jincheng”	Hebei Guokong Jincheng Environmental Control Co., Ltd.* (河北國控津城環 境治理有限責任公司)
“Hangzhou Company”	Hangzhou Tianchuang Capital Water Co., Ltd.* (杭州天創水務有限公司)
“Hanshou Company”	Hanshou Tianchuang Water Co., Ltd.* (漢壽天創水務有限公司)
“HB GJTC”	Hebei Guojin Tianchuang Sewage Treatment Co., Ltd.* (河北國津天創污水處 理有限責任公司)
“Hefei Company”	Hefei Capital Water Co., Ltd.* (合肥創業水務有限公司)
“Hexi Court”	People’s Court of Hexi District, Tianjin City
“Honghu Tianchuang Environmental Protection”	Honghu Tianchuang Environmental Protection Co., Ltd.* (洪湖市天創環保有 限公司)
“Honghu Tianchuang Water”	Honghu Tianchuang Water Co., Ltd.* (洪湖市天創水務有限公司)
“Hong Kong Company”	Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.
“Huize Company”	Huize Capital Water Co., Ltd.* (會澤創業水務有限公司)
“Huoqiu Company”	Huoqiu Capital Water Co., Ltd.* (霍丘創業水務有限公司)

1. Definitions

“International Machinery Company”	Tianjin International Machinery Co., Ltd.* (天津國際機械有限公司)
“Jiayuanbin”	Tianjin Jiayuanbin Innovative Energy Technology Co., Ltd.* (天津佳源濱創新能源科技有限公司)
“Jiayuankaichuang Company”	Tianjin Jiayuankaichuang New Energy Technology Co., Ltd.* (天津佳源開創新能源科技有限公司)
“Jiayuantian”	Tianjin Jiayuantian Innovative Energy Technology Co., Ltd.* (天津佳源天創新能源科技有限公司)
“Jiayuanxin”	Tianjin Jiayuanxin Innovative Energy Technology Co., Ltd.* (天津佳源鑫創新能源科技有限公司)
“Jiayuanxing”	Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd.* (天津佳源興創新能源科技有限公司)
“Jieshou Company”	Jieshou Capital Water Co., Ltd.* (界首市創業水務有限公司)
“Jinghai Company”	Tianjin Jinghai Capital Water Co., Ltd.* (天津靜海創業水務有限公司)
“Jinning Capital Company”	Tianjin Jinning Capital Water Co., Ltd.* (天津津寧創環水務有限公司)
“Jiuquan Company”	Jiuquan Capital Water Co., Ltd.* (酒泉創業水務有限公司)
“Karamay Company”	Karamay Tianchuang Capital Water Co., Ltd.* (克拉瑪依天創水務有限公司)
“Linxia Company”	Linxia Capital Water Co., Ltd.* (臨夏市創業水務有限公司)
“Qudong Company”	Tianjin Qudong Cultural Media Co., Ltd.* (天津驅動文化傳媒有限公司)
“Qujing Company”	Qujing Capital Water Co., Ltd.* (曲靖創業水務有限公司)
“Shandong Company”	Shandong Capital Environmental Protection Technology Co., Ltd.* (山東創業環保科技發展有限公司)

“Shandong Tanchuang Company”	Shandong Tanchuang Environmental Protection Technology Development Co., Ltd.* (山東鄭創環保科技發展有限公司)
“Shibing Company”	Shibinggui Capital Water Co., Ltd.* (施秉貴創水務有限公司)
“Sino Company”	Sino Legend Industries Limited
“Subsidiaries”	Subsidiaries of Tianjin Capital Environmental Protection Group Company Limited
“Tianjin Haihe”	Tianjin Haihe Construction Development and Investment Co., Ltd.
“Tianjin Investment Group”	Tianjin City Infrastructure Construction and Investment Group Co., Ltd.
“TLP”	Tianjin Lecheng Properties Co., Ltd.* (天津樂城置業有限公司)
“TMICL”	Tianjin Municipal Investment Co., Ltd.
“TYCOM”	Tianjin Yuanyicheng Commercial Operation Management Co., Ltd.* (天津元易誠商業運營管理有限公司)
“Water Recycling Company”	Tianjin Water Recycling Co., Ltd.* (天津中水有限公司)
“Wendeng Company”	Wendeng Capital Water Co., Ltd.* (文登創業水務有限公司)
“Wuhan Company”	Wuhan Tianchuang Capital Environmental Protection Co., Ltd.* (武漢天創環保有限公司)
“Xi’an Company”	Xi’an Capital Water Co., Ltd.* (西安創業水務有限公司)
“Xiqing Tianchuang Company”	Tianjin Xiqing Tianchuang Environmental Protection Co., Ltd.* (天津西青天創環保有限公司)
“Yingshang Company”	Yingshang Capital Water Co., Ltd.* (潁上創業水務有限公司)
“Yonghui Company”	Jiangsu Yonghui Resources Utilisation Co., Ltd.* (江蘇永輝資源利用有限公司)

2. Company Profile and Major Financial Indicators

I. INFORMATION OF THE COMPANY

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

II. CONTACT PERSON AND METHOD

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

III. COMPANY PROFILE

Registered address	12/F, TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC
Historical changes in the registered address	The address of the Company's registered office changed from 45 Guizhou Road, Heping District, Tianjin, PRC to 76 Weijin South Road, Nankai District, Tianjin, PRC in April 2005; The address of the Company's registered office changed from 76 Weijin South Road, Nankai District, Tianjin, PRC to 12/F, TCEP building, 76 Weijin South Road, Nankai District, Tianjin, PRC in December 2020.
Office address	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC
Postal code of the office address	300381
Website	http://www.tjcep.com
Email address	tjcep@tjcep.com

IV. PLACES WHERE INFORMATION IS DISCLOSED AND AVAILABLE FOR INSPECTION

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

V. PROFILE OF THE SHARES OF THE COMPANY

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

VI. OTHER RELEVANT INFORMATION

Certified public accountants engaged by the Company	Name	PricewaterhouseCoopers Zhong Tian LLP
	Office address	11/F, PricewaterhouseCoopers Center, 2 Leading Enterprise Square, 202 Hu Bin Road, Huangpu District, Shanghai, the PRC
	Name of Signing Accountant	Du Kai Shu Wei

2. Company Profile and Major Financial Indicators

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

(1) Major accounting data

		<i>Unit: 0'000 Currency: RMB</i>		
Major accounting data	2021	2020	Increase/ Decrease for the period as compared to the same period last year (%)	2019
Operating revenue	453,557.90	336,387.40	34.83	285,145.30
Net profit attributable to the shareholders of the Company	69,318.90	57,003.90	21.60	50,710.70
Net profit attributable to the shareholders of the Company after deduction of extraordinary profit and loss	61,359.80	49,316.00	24.42	38,445.20
Net cash flow from operating activities	93,680.8	53,243.60	75.95	88,493.30
	As at the end of 2021	As at the end of 2020	Increase/ Decrease as at the end of the period as compared to the end of the same period last year (%)	As at the end of 2019
Net assets attributable to the shareholders of the Company	712,019.80	659,135.10	8.02	617,402.50
Total assets	2,106,529.2	1,880,296.90	12.03	1,799,080.70

(2) Major financial indicators

		<i>Currency: RMB</i>		
Major financial indicators	2021	2020	Increase/ Decrease for the period as compared to the same period last year (%)	2019
Basic earnings per share (RMB/share)	0.49	0.40	22.50	0.36
Diluted earnings per share (RMB/share)	0.49	0.40	22.50	0.36
Basic earnings per share after deduction of extraordinary profit and loss (RMB/share)	0.43	0.35	22.86	0.27
Weighted average return on net assets ratio (%)	10.11	8.95	1.16	8.48
Weighted average return on net assets ratio after deduction of extraordinary profit and loss (%)	9.00	7.74	1.26	6.43

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

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

Not applicable

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

Not applicable

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

Not applicable

IX. EXTRAORDINARY PROFIT AND LOSS ITEMS AND AMOUNTS

Extraordinary Profit and Loss Item	<i>Unit: 0'000 Currency: RMB</i>		
	Amount in 2021	Amount in 2020	Amount in 2019
Profit/loss from disposal of non-current assets	-70.80	2.10	70.40
Government grants recognized in current profit and loss, except for those closely related to normal business operation, in compliance with requirements of national policies, and settled in certain amount which are constantly granted by government	9,183.90	9,657.70	10,810.30
Other non-operating income and expenses other than the foregoing items	-26.4	-470.20	-152.00
Profit/loss from disposal of other current assets	0	0	4,870.30
Reversal of provision for impairment loss of account receivables subject to separate impairment testing	346.0	43.70	0
Less: Effect of income tax	1,578.1	1,550.60	3,149.60
Effect of minority interests (after tax)	-104.5	-5.20	183.90
Total	<u>7,959.10</u>	<u>7,687.90</u>	<u>12,265.50</u>

X. ITEMS MEASURED BY FAIR VALUE

Not applicable

2. Company Profile and Major Financial Indicators

XI. FIVE-YEAR FINANCIAL SUMMARY

Results

Unit: 0'000 Currency: RMB

	For the year ended 31 December				
	2021	2020	2019	2018	2017
Turnover	453,558	336,387	285,145	244,752	193,193
Profit before taxation	89,606	71,818	62,955	69,484	71,879
Taxation	(17,705)	(11,205)	(10,059)	(16,806)	(19,959)
Profit after taxation	71,901	60,614	52,896	52,678	51,920
Non-controlling interests	(2,582)	(3,610)	(2,185)	(2,561)	(1,094)
Profit attributable to the shareholders of the Company	69,319	57,004	50,711	50,117	50,825
Dividend	17,127	15,271	15,129	–	–

Note: The results for each of the five years ended 31 December 2021 have been extracted from the previous annual reports and the audited consolidated income statements as set out in this annual report.

Assets and Liabilities

Unit: 0'000 Currency: RMB

	As at 31 December				
	2021	2020	2019	2018	2017
Fixed assets, construction in progress and investment properties	100,293	81,935	80,101	58,163	49,131
Intangible assets and right-of-use assets	1,034,071	1,199,982	1,175,944	1,037,483	690,642
Associated company	19,500	19,500	19,500	19,500	–
Financial asset at fair value through other comprehensive income	200	200	200	–	–
Available-for-sale financial assets	–	–	–	200	200
Long-term receivables	381,190	164,740	23,645	25,369	29,496
Deferred income tax assets	1,927	1,297	421	–	–
Other non-current assets	45,089	33,097	19,592	10,918	59,843
Net current assets	162,636	27,858	124,790	150,129	98,631
Non-controlling interests	98,387	99,029	96,816	79,676	29,674
Long-term liabilities	975,045	770,445	729,975	640,266	386,564
Net assets	712,020	659,135	617,402	581,820	474,438

3. Management Discussion and Analysis

I. OPERATION DISCUSSION AND ANALYSIS

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

In 2021, the economy of the PRC is still in the process of recovery and development after the sudden outbreak of the epidemic and other shocks, and it is more difficult to maintain stable operation of the economy. Confronted with the pressure on funds, operations and other aspects of economic downturn, the Board and the management persevere in pursuing progress while ensuring stability, and in accordance with the established operational plans and strategies, improve capacity on sewage, recycled water and other business steadily, continue to promote new energy, transformation on environmental protection technology and other strategic new business on the basis of the principle of expanding and strengthening principal business and optimizing the structure. Enhance technology leading concept through upgrading the technology system, products and services as well as the protection mechanism. Optimize group management and control, strengthen management objectives and evaluation by consolidating resource and rational delegation of authority. With the joint efforts of all employees, various work of the Company is carried out orderly and various business objectives are successfully accomplished.

(1) Pursue intelligent operation management system construction, achieve management improvement

During the reporting period, the Group vigorously pursued the operation of big data platform construction, currently the main system of the platform has been preliminarily completed with the platform system configuration, framework construction, system login authentication, water quality warning module, technical quality management module, bidding and procurement management module, public opinion management module, energy consumption management module and other functions, visualization system and mobile APP functions are also carried out simultaneously, providing intelligent decision-making support for the scientific management, reasonable scheduling, energy saving and efficiency of the production and operation of the Group.

(2) Implementation of lean management, strengthen the control on production and operation costs

Establish and implement a quality-cost linkage control mechanism, under the premise of meeting quality standards, strive to achieve the purpose of increasing operating profits with the minimum production cost, to facilitate the the goal of cost reduction of operating projects. Meanwhile, innovate lean management methods, compile the “Lean Management Implementation Plan” and “5S & Visualization Promotion Manual”, form a lean management system, guide precise dosing, precise aeration, automatic control management, etc., combined with quality cost linkage control mechanism, strengthen the control on production and operation cost control.

3. Management Discussion and Analysis

(3) Improve capacity on sewage, recycled water and other business steadily, continue to promote new energy, transformation on environmental protection technology and other strategic new business

During the reporting period, the Company successfully obtained the Tianjin Xiqing Dasi Sewage Treatment Project, the third batch of Public Private Partnership (“PPP”) project of Jieshou Sewage Treatment, the second batch of newly-built and upgrade and supporting pipeline network PPP project of Honghu township sewage water processing plant, expanding the scale of sewage treatment interests. Water Recycling Company obtained the construction in relation to the recycled water pipeline network connection project in the main district of Tianjin, after completion, the water pipeline network will reach 972 kilometers, the water supply rate of the pipeline network will reach 90%, and the water supply service area will increase by 360 square kilometers, which will greatly improve the utilisation rate of recycled water in Tianjin.

During the reporting period, the Company won the bid for 1# Licensed Operation of Energy Station Project of Tianjin Houtai Park, which increases the market share of new energy business. Shandong Company acquired Shandong Ruikai Logistics Co., Ltd.* (山東瑞凱物流有限公司) to help the Company develop the hazardous waste disposal business in Shandong, the acquisition of two hazardous wastes projects of Compro Company and Yonghui Company in the field of hazardous waste treatment, the Company has realized a new pattern of north-south correspondence; Caring Company used its technical advantages to obtain the project of entrusted operation of deep dewatering of sludge from Zhejiang Longde Cogeneration Plant, vigorously promoting deodorization business and pushing forward the market transformation from technical research achievements.

(4) Adjust the organizational structure, improve the management on authority, optimize group management and control mechanism

To date, the Company has 53 subsidiaries located in 185 provinces, cities and autonomous regions across the country. In order to achieve effective management and control of subsidiaries in other cities and achieve development on regional integration, the Company established Beijing-Tianjin-Hebei three regional companies during the reporting period, and authorised regional companies to implement comprehensive management of operating projects and subsidiaries within their jurisdiction. Optimizing the authorization management of regional companies, the Company will establish a management system of “stepwise management, stepwise responsibility and stepwise assessment”. Meanwhile, the Company improved the establishment of board of directors in its subsidiaries by taking the three-year action for reform of state-owned enterprises as a grip to realise the organic combination of business management of the Group and corporate governance of the subsidiaries, and further optimize the group control mechanism. In 2021, the Company was successfully selected as a “Benchmark Enterprise” of the key state-owned enterprise management benchmarking action, and was the only selected enterprise in Tianjin.

During the reporting period, combined with transformation trend of the future business model of the water utilities environmental industry of the separation of investment entities and operating entities, the Company actively explores the establishment of a new platform for the “asset-light” business model, established a professional operation branch company and built a professional market-oriented operation team during the reporting period, fully demonstrates the Company’s brand elements and concepts, and then consolidates the principal business and further enhances the sublimation of core competitive advantages.

(5) *Upgrade the technology system, enhance technology leading concept*

During the reporting period, the Company has vigorously carried out scientific research and development (“R&D”) work, carried on 3 national-level scientific research projects, and 2 municipal-level scientific research projects, organized the preparation and revision of 2 industrial standards and obtained 13 patents, all of which were utility model patents. Adhered to the principal business of technology services, and completed 55 scientific and technological projects of the Group; took multiple measures to promote the transformation of scientific achievements, and reached the economic benefits of RMB151.7136 million from the transformation of technical research achievements in 2021.

The Company’s “Integrated Process Design of Sewage Treatment and Sludge Thickening Based on TRIZ Theory” won the second prize of “China Innovation Method Competition Tianjin Branch Competition” and “Development and Application of Monitoring Equipment for Sewage Treatment Process” and “TRIZ Innovation Theory in AHCR-A2O Sewage Treatment Process Application in Research and Development” won the third prize in the same competition respectively; the Municipal Science and Technology Bureau’s “Sewage and Wastewater Treatment Bio-enhanced Bacterial Agent Application Technology Service Platform” project undertaken by the Group won the second prize of “2021 Tianjin Intellectual Property Innovation, Entrepreneurship, Invention and Design Contest”; Caring Company’s three technical achievements of “Two-stage Autotrophic Denitrification Process Based on Anammox”, “Comprehensive Deodorization Technology for Sewage Treatment Plants – “Whole Process Deodorization+” and “Kitchen Waste and Municipal Sludge Synergistic Anaerobic Digestion Technology” were successfully selected into the “Blue Book on the Development of Ecological Environmental Protection Technology in Tianjin”.

3. Management Discussion and Analysis

II. INDUSTRIES WHERE THE COMPANY OPERATES DURING THE REPORTING PERIOD

In 2021, the water environmental industry further develops, and a new trend of changes in business models has also emerged, that is, the water environmental market will gradually undergo a change in business model of the separation of the investment entities and operation entities. Such as, the water environmental industry is currently exploring infrastructure REITs after two major business model changes in licensed operation and PPP. Licensed operation is a business investment, PPP is a cooperation between the government and enterprises, with the enterprises as the main and the government as a complement to complete the investment, while the infrastructure REITs will enable the market-oriented investor investment. If infrastructure REITs become the mainstream in the industry, the separation of asset holdings and operations will very likely be accelerated. For the purpose of obtaining stable and higher returns for REITs investors, the need for operational management and cost control will continue to increase. Therefore, enterprises with the ability to specialize in integrated operation services will gain huge room for development due to their unique competitive advantages.

In addition, some cross-sector enterprises that have entered the environmental protection field have more advantageous investment capabilities than professional environmental protection enterprises in recent year. However, after all there may be a temporary lack of accumulation in terms of operating experience, so there is a possibility for them to outsource operational management. This will further promote the separation of investment entities and operating entities of water environmental assets. Therefore, the transformation of business models will not only have an impact on the traditional “investment and operation” model, but also accelerate the transformation of the original water environmental protection enterprises from “assets heavy” to “assets light”.

National Development and Reform Commission and ten other ministries and commissions issued a “Guidance on Promoting the Wastewater Resource Utilisation” in January 2021, a year later the National Development and Reform Commission in conjunction with the Ministry of Ecology and Environment and four other ministries and commissions issued a “Notice on Accelerating the Promotion of Urban Environmental Infrastructure Construction Guidance” in January 2022. The policy direction of the water and environmental protection industry is positive, and it also proposed to encourage and advocate the urban, industrial wastewater resource utilisation, and to introduce supporting policies to create demonstration projects, and to improve the recycling and resource utilisation of solid waste in various fields such as domestic, industrial and construction, and to combine with the background of “carbon peak, carbon neutral”. In addition, in respect of the basic services of pollution control, environmental protection enterprises should pay more attention to the direction of environmental protection resources and energy transformation to enrich and improve the added value of environmental protection industry. The Company has a certain foundation of resources and energy utilisation in the water recycling business, the hazardous waste business and the new energy sector, and will continue to develop and expand such business in depth and in line with this policy direction in the future.

III. BUSINESS OF THE COMPANY DURING THE REPORTING PERIOD

There was no material change in the business scope and business model of the Company as compared to the previous year. The core business is still formed by the principal business and strategic new business. Principal business includes the business of municipal sewage treatment, water supply and water recycling etc. The principal business is the main source of revenue and profit of the Company. Strategic new business includes new energy heating and cooling, hazardous wastes business, sludge treatment, photovoltaic power generation, transformation of achievements in technology research, etc. In respect of profitability, economic added value, and payback period, it can form a good complement with the principal business and optimize the overall business structure.

During the reporting period, the additional capacity of the equity-type water utilities business of the Company amounted to 80,000 m³ per day, and additional recycled water pipeline network was 65km, with no significant change in other water utilities business scale as compared with the beginning of the reporting period. As of the end of the reporting period, the total capacity of the equity-type water utilities business of the Company amounted to approximately 5.6046 million m³ per day, among which the sewage treatment capacity, water supply capacity (including tap water and industrial water supply capacity) and recycled water capacity under the PPP model was approximately 4.8696 million m³ per day, 315,000 m³ per day and 420,000 m³ per day, respectively, and the pipe network length under the integrated plant network was 1,190 km. The above projects are distributed in 15 provinces, municipalities and autonomous regions and the sewage treatment capacity under the entrusted operation model was approximately 204,100 m³ per day, the scale of recycled water was 60,000 m³/day.

Based on Build-Operate-Transfer (“BOT”), Toll-Operate-Transfer (“TOT”) and PPP models in sewage treatment and water supply, the Company mainly obtained sales revenue from the production and sale of recycled water and the income from provision of recycled water pipeline connection services on recycled water business, which have not changed significantly compared with the beginning of the reporting period.

During the reporting period, the changes in the strategic new business of the Company are as the following:

- (1) The additional heating service areas of new energy cooling and heating supply business amounted to 1.066 million m², As of the end of the reporting period, the total service areas amounted to 3.11 million m², which was mainly operated in Tianjin under BOT model, remaining unchanged as compared with that of previous year.

3. Management Discussion and Analysis

- (2) For hazardous wastes business, due to the implementation of new standards for hazardous wastes landfills, the hazardous wastes project in Tancheng of the Company was converted into a rigid landfill, involving a disposal scale of 314,600 tons. As of the end of the reporting period, the Company has four projects with the total disposal capacity of 128,000 tons/year, and a storage and transit project with the capacity of 20,000 tons/year and a waste landfill project with the aggregate storage of 314,600 tons with the comprehensive waste utilisation capacity of 73,000 tons/year, which were mainly distributed in Shandong Province and Jiangsu Province. Based on the premise of obtaining the hazardous waste operation permit, the Company chose waste-producing units to offer hazardous waste disposal services under the guide price of local governments and charged for hazardous waste disposal service by adopting a fully market-oriented operation mode.
- (3) There was no material change in distributed photovoltaic power generation project during the reporting period. As of the end of the reporting period, the scale of the planned annual electricity generation remains at 2.9216 million kWh which was mainly distributed in Tianjin and Dalian and managed by adopting a fully market-oriented operation mode.
- (4) During the reporting period, the additional capacity on sludge treatment business was 1,700 tons/day. As of the end of the reporting period, the total capacity on sludge treatment was 2,970 tons/day, which was mainly distributed in Tianjin, Jiuquan and Zhejiang. The Jiuquan Project was operated under BOT model while the remaining sludge treatment projects were operated under the entrusted operation model.
- (5) In terms of the transformation of technical research achievements, in 2021, a total of 37 transformation projects of the Group can be utilised to generate as revenue from technical product services, realising the contract amount of RMB135.5832 million and saving a total of RMB16.1304 million due to reduced electricity and drug consumption etc.

The Company used its technological advantages, to research and develop dairy wastewater and livestock manure treatment in the mode of scientific research and project bidding, and helped Caring Company acquiring two livestock manure treatment projects from Tianjin Food Group Co., Ltd* (天津食品集團有限公司), with a total contract value of nearly RMB30 million.

The transformation of the market business of the patented “CYF whole-process deodorant technology” is undertaken by Caring Company, and 13 project contracts were signed. As of the end of the reporting period, the application of this technology has covered nearly two-thirds of the country, and more than 80 projects have been successfully applied and implemented, covering 18 provinces, municipalities and autonomous regions. In the process of business promotion, Caring Company closely followed the new trend brought about by the change of industrial policy, and enriched the diversity of the odour treatment technology in the urban sewage treatment industry. Based on its own technical advantages in strain screening and culture, the deodorization technology has been continuously upgraded to the “whole-process deodorization + technology”, further promoting the development of commercialization in the future.

IV. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

During the reporting period, the core competitiveness of the Group continued to be reflected in the following four aspects: (1) our ability to operate in a safe, stable, up-to-standard, and efficient manner; (2) our practical, leading, systematic, and sustainable research and development capabilities; (3) our professional, dedicated, cooperative, and innovative staff team; (4) our corporate reputation for being trustworthy, responsible, standardized, and reliable. The above four core competitiveness complement each other, where corporate integrity, employee intentions, technological innovation ultimately reassures customers, forming a good brand influence of the Company.

After the development in 2021, the Company further consolidated its strengths and enhanced its overall competitiveness.

- (1) Leveraging upon the big data, cloud computing and other technologies, established the operation of big data platform to facilitate the launching of smart water utilities management system, striving to achieve the high-quality development in operation and management.
- (2) Further optimising the scientific R&D system, strengthened R&D incentives and carried out various R&D activities, where 16 patents were obtained through independent R&D, 6 software copyrights were obtained, 3 national-level scientific research projects, 2 municipal-level scientific research projects and 66 corporate scientific research projects were carried on, and the Company organized the industry standard “Technical Regulations for Operation, Maintenance and Safety of Urban Sewage Treatment Plants” (CJJ60), organized the preparation and revision on the “Reuse of Urban Recycling Water – Water Quality Standard for Industrial Uses” (GBT19923). In addition, the Company has undertaken the Compilation work of 1 local standard “Technical Regulations for Regional Comprehensive Energy Stations” and 5 group standards “Technical Regulations for Operation, Maintenance and Safety of Reclaimed Water Conveying System”, “Technical Specifications for Rural Sewage Recycling and Utilisation”, “Technical Scheme for Ecological Restoration of River Basins into the Sea”, “Technical Regulations for Energy Recovery and Utilisation of Urban Sewage Materials” and “Carbon Sources for Sewage (Waste) Water Treatment”, which have further improved the company’s scientific R&D capabilities.

3. Management Discussion and Analysis

- (3) As of the end of the reporting period, the Group had a total of 2,300 employees, among which 21 of them have a high professional title, 246 of them have a senior professional title, and 363 of them have a medium-grade professional title. The professional fields cover environmental engineering, water supply and drainage, electrical engineering, mechanical equipment, economics, and management. For many years, the Company emphasizes and encourages innovation, and the Company in 2021 has nearly 24 achievements in management innovation, two of which participated in the selection of “Tianjin Innovation Achievements in Modernization”.
- (4) In 2021, the Company was awarded “Top Ten Influential Enterprises in China’s Water Industry” for the sixteenth consecutive year, establishing a good corporate image and brand reputation.

V. OPERATION SITUATION OF PRINCIPAL BUSINESS DURING THE REPORTING PERIOD

During the reporting period, the Company’s overall operation remained stable. The Company’s principal business segment did not change significantly as compared to the previous year, and the Group was still engaged in the sewage treatment, tap water supply, recycled water, new energy heating and cooling supply, toll collection, hazardous waste, and transformation of achievements in technology research and business, which became the main sources of the Group’s earnings in 2021. In 2021, the Group began to record operation revenue of RMB4,535.5790 million, representing an increase of 34.83% as compared to the previous year; total profits of RMB896.059 million, representing an increase of 24.77% as compared to the previous year; the net profit of RMB 693.1890 million attributable to the Company, representing an increase of 21.60% as compared to the previous year.

(1) Analysis of the principal businesses

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

Unit: 0'000 Currency: RMB

Item	Amount for the current period	Amount for the same period of last year	Percentage change (%)
Operating revenue	453,557.90	336,387.40	34.83
Operating cost	318,829.60	218,511.90	45.91
Selling expenses	1,183.50	1,587.90	-25.47
Administrative expenses	22,483.30	17,807.80	26.26
Finance costs	11,669.20	23,910.00	-51.20
Research and development expenses	1,834.50	1,320.10	38.97
Net cash flows from operating activities	93,680.8	53,243.60	75.95
Net cash flows from investing activities	-154,742.1	-154,037.20	-0.46
Net cash flows from financing activities	105,151.2	59,429.20	76.94
Other income	11,382.60	16,241.00	-29.91
Credit impairment loss	414.40	-8,833.20	-104.69
Impairment loss of assets	-15,181.90	-3,480.80	336.16
Gain on disposal of assets	-2.20	6.70	-132.84
Non-operating income	117.30	180.70	-35.09
Non-operating expenses	212.30	668.80	-68.26

- Reasons for the change in operating revenue: mainly due to (1) the unit price of some existing water utilities projects have increased and the amount of water has increased; (2) with the business development and new projects put into operation, the scale of the Company's overall water utilities business and hazardous waste business increased; (3) in accordance with the provisions of the Interpretation of Accounting Standards for Business Enterprises No. 14, the Company has recognized the construction service income corresponding to the PPP projects in the construction process this year.
- Reasons for the change in operating cost: mainly due to (1) the increase of business volume in the current period, was accompanied by an increase in costs as revenue increased; (2) the continuous increase in operating inputs of the Company in the face of the improvement of water quality standards has led to an increase in sewage treatment costs; (3) in accordance with the provisions of the Interpretation of Accounting Standards for Business Enterprises No. 14, the Company has recognized the construction service income corresponding to the PPP projects in the construction process this year.
- Reasons for the change in selling expenses: mainly due to the decreased consulting service fees.

3. Management Discussion and Analysis

4. Reasons for the change in administrative expenses: mainly due to the increase in management costs as the increase of new projects or new operation projects.
5. Reasons for the change in finance costs: mainly due to, on one hand, the recognition of availability service fee as long-term receivables and the recognition of interest income in the current year in accordance with Interpretation 14 of the Accounting Standards for Business Enterprises, which was not available in the same period last year; on the other hand, the gain on exchange were higher than last year under the effect on foreign exchange rate change. These two aspects offset the impact of the increase in interest expense on finance expenses due to the increase in loan principal and the expense of interest expense after the project was put into operation in this year.
6. Reasons for the change in research and development expenses: mainly due to the increase in R&D investment, personnel expenses and maintenance costs in this current period.
7. Reasons for the change in net cash flow generated from operating activities: the main reason is that the operating receivables such as sewage treatment service fees collected in the current period were higher than that of the same period last year.
8. Reasons for the change in net cash flow generated from investing activities: main reason is that the payment of merger and acquisition in the current year, which was not available in the same period last year; the investment expenditures of engineering projects of the Company in the current period were lower than that of the same period last year.
9. Reasons for the change in net cash flow generated from financing activities: the main reason is that the net increased of financing liabilities in the current period were higher than that of the same period last year.
10. Reasons for the change in other income: The main reason is that the reduced VAT rate on sewage water business in the current period were lower than that of the same period last year, the VAT refund was reduced accordingly.
11. Reasons for the change in credit impairment loss: the main reason is that the bad debt loss on long-term receivables in the current period.
12. Reasons for the change in impairment loss of assets: the main reason is that the impairment of goodwill and concession rights of intangible assets in the current period.

13. Reasons for the change in gain on disposal of assets: the main reason is that the loss on the disposal of fixed assets in the current period.
14. Reasons for the change in non-operating income: the main reason is that the written off accounts payable in the same period last year.
15. Reasons for the change in non-operating expenses: the main reason is that the donation on the expenses in the same period last year, which was not available in the current period.

2. Analysis of income and costs

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

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

Unit: 0'000 Currency: RMB

Industry	Principal business by industry					
	Operating revenue	Operating cost	Gross profit margin (%)	Increase/decrease in operating revenue compared with last year (%)	Increase/decrease in operating cost compared with last year (%)	Increase/decrease in gross profit margin compared with last year (%)
Sewage treatment and water plant facilities construction business (Note 1)	335,182	235,300	29.80	40.10	51.41	-5.24
Recycled water treatment and recycled water supporting projects business	33,704	20,926	37.91	6.28	-7.62	9.34
Road toll business	6,250	712	88.61	-0.16	0	-0.02
Tap water supply and water plant facilities construction business	14,972	11,525	23.02	50.78	42.72	4.34
Cooling and heating business and related facilities construction business	10,235	6,898	32.60	1.73	2.80	-0.71
Transformation of achievements in technology research (Note 2)	5,275	3,900	26.07	22.02	162.98	-39.63
Others (Note 3)	22,631	22,612	0.08	102.44	201.41	-32.81

3. Management Discussion and Analysis

Principal business by region

Region	Operating revenue	Operating cost	Gross profit margin (%)	Increase/ decrease in operating revenue compared with last year (%)	Increase/ decrease in operating cost compared with last year (%)	Increase/ decrease in gross profit margin compared with last year (%)
Beijing-Tianjin-Hebei Region (Note 4)	209,407	125,774	39.94	16.78	12.76	2.14
Southwest Region (Note 5)	18,591	14,156	23.86	21.52	20.66	0.54
Northwest Region (Note 6)	69,321	58,686	15.34	89.96	126.17	-13.55
Central China Region (Note 7)	66,771	50,298	24.67	89.98	109.58	-7.05
Eastern China Region (Note 8)	42,800	33,381	22.01	34.43	67.71	-15.47
Northeast Region (Note 9)	21,359	19,578	8.34	46.04	107.90	-27.27

Note 1: The main reasons of the decrease in gross profit margin: on one hand, the continuous increase in investment in operations contributed to the increase in sewage treatment cost; on the other hand, the gross profit of construction service recognized during the period was lower.

Note 2: The main reason of the decrease in gross profit margin was that the intense market competition resulted in the decrease in gross profit margin of projects during the period.

Note 3: The decrease in gross profit margin was mainly attributable to market competitions, which resulted in the decrease in gross profit margin of hazardous waste business.

Note 4: The Beijing-Tianjin-Hebei Region includes the four sewage treatment plants in Dongjiao, Xianyang Road, Jingu and Beicang of Tianjin, as well as Anguo Company, Jinghai Company, Jinning Capital Company, Water Recycling Company, Caring Company, Jiayuanxing, Capital Materials Company, Hebei Guojin Company and Xiqing Tianchuang Company. The increase was due to the increased business volume as compared to the same period last year.

Note 5: The Southwest Region includes Guizhou Company, Qujing Company and Huize Company.

Note 6: The Northwest Region includes Xi'an Company, Karamay Company, Bayannur Company, Linxia Company and Jiuquan Company. The reason of the decrease in gross profit margin was due to the fact that the gross profit margin of construction services recognized during the period was lower.

Note 7: The Central China Region includes Fuyang Company, Wuhan Company, Yingshang Company, Changsha Tianchuang Water, Changsha Tianchuang Environmental Protection, Anhui Company, Honghu Tianchuang Water, Hefei Company, Hanshou Company, Honghu Tianchuang Environmental Protection and Huoqiu Company. The reason of the decrease in gross profit margin was due to the fact that the gross profit margin of construction services recognized during the period was lower.

Note 8: The Eastern China Region includes Hangzhou Company, Baoying Company, Deqing Company, Yonghui Company and Compro Company. The reason of the decrease in gross profit margin was due to the fact that the gross profit of two hazardous waste projects, namely Yonghui Company and Compro Company, was lower.

Note 9: The Northeast Region includes Dalian Chunliuhe Company, Wendeng Company, Shandong Technology Company, Dongying Tianchi Company and Shandong Tanchuang Company. The reason of the decrease in gross profit margin was due to the fact that the gross profit margin of the hazardous waste business of Shandong Company during the year recorded a decrease.

(2). Analysis of production and sales volume

Not applicable

3. Management Discussion and Analysis

(3). Cost analysis

Unit: 0'000 Currency: RMB

Industry	Cost item	By industry				Percentage change in the amount for the current period as compared to the same period last year (%)	Explanation
		Amount for the current period	Percentage of total cost for the current period (%)	Amount in the same period last year	Percentage of total cost for the same period last year (%)		
Sewage treatment and construction of water plants	Labor cost	17,198	5.7	15,373	7.59	11.87	Nil
	Energy consumption (electricity)	28,709	9.51	26,618	13.14	7.86	Nil
	Material consumption	32,898	10.9	32,300	15.95	1.85	Nil
	Depreciation and amortisation	50,861	16.85	44,428	21.94	14.48	Nil
	Other manufacturing expenses	36,557	12.11	36,689	18.11	-0.36	Nil
	Infrastructure Construction costs on Sewage water plant	69,077	22.88	0	0	Not applicable	Recognition of construction costs of PPP projects in accordance Interpretation 14 with PRC Accounting Standards for Business Enterprises
	Subtotal	235,300	77.95	155,408	76.73	51.41	Nil
Tap water supply and construction water plants business	Labor cost	1,653	0.55	1,237	0.61	33.63	On one hand, due to the epidemic in the same period last year, some of project personnel enjoy social security fee reduction, and on the other hand, the increase in personnel and some projects personnel costs are converted from capitalisation to expensing.
	Energy consumption (electricity)	1,154	0.38	1,069	0.53	7.95	Nil
	Material consumption (including source water fee)	3,563	1.18	3,233	1.6	10.21	Nil
	Depreciation and amortisation	1,547	0.51	1,585	0.78	-2.4	Nil
	Other manufacturing expenses	447	0.15	951	0.47	-53	The decrease was mainly due to the decrease in maintenance costs for the year
	Infrastructure Construction costs on water plant	3,161	1.05	0	0	Not applicable	Recognition of construction costs of PPP projects in accordance Interpretation 14 with PRC Accounting Standards for Business Enterprises
	Subtotal	11,525	3.82	8,075	3.99	42.73	Nil

3. Management Discussion and Analysis

		By industry				Percentage change in the amount for the current period as compared to the same period last year (%)		Explanation
Industry	Cost item	Amount for the current period	Percentage of total cost for the current period (%)	Amount in the same period last year	Percentage of total cost for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year (%)		
Water recycling treatment and recycled water supporting projects	Labor cost	2,436	0.81	2,060	1.02	18.25	Nil	
	Energy consumption (electricity)	1,250	0.41	1,157	0.57	8.04	Nil	
	Material consumption	1,074	0.36	1,203	0.59	-10.72	Nil	
	Depreciation and amortisation	2,657	0.88	2,501	1.23	6.24	Nil	
	Other manufacturing expenses	4,812	1.59	5,694	2.81	-15.49	Nil	
	Project construction cost	8,697	2.88	10,037	4.96	-13.35	Nil	
	Subtotal	20,926	6.93	22,652	11.18	7.62	Nil	
Cooling and heating and related facilities construction business	Labor cost	1,297	0.43	1,150	0.57	12.82	Nil	
	Energy consumption (electricity)	1,579	0.52	2,199	1.09	-28.19	Capacity electricity bill decrease	
	Material consumption	46	0.02	43	0.02	6.98	Nil	
	Depreciation and amortisation	2,697	0.89	2,562	1.26	5.27	Nil	
	Other manufacturing expenses	910	0.3	756	0.37	20.31	Nil	
	Supporting engineering	369	0.12	0	0	Not applicable	Recognition of construction costs of PPP projects in accordance Interpretation 14 with PRC Accounting Standards for Business Enterprises	
Subtotal	6,898	2.29	6,710	3.31	2.8	Nil		

3. Management Discussion and Analysis

Industry	Cost item	By industry				Percentage change in the amount for the current period as compared to the same period last year (%)	Explanation
		Amount for the current period	Percentage of total cost for the current period (%)	Amount in the same period last year	Percentage of total cost for the same period last year (%)		
Road toll business	Toll road and management fee	712	0.24	712	0.35	0	Nil
	Subtotal	712	0.24	712	0.35	0	Nil
Transformation of achievements in technology research	Material cost, equipment cost	3,749	1.24	1,337	0.66	180.4	The increase in work-settled compared with the same period of the previous year
	Other manufacturing expenses	151	0.05	146	0.07	3.42	
	Subtotal	3,900	1.29	1,483	0.73	162.98	
Other	Labor cost	3,031	1	678	0.33	347.05	
	Energy consumption (electricity)	1,898	0.63	438	0.22	333.33	
	Material consumption	952	0.32	388	0.19	145.36	The scale of disposal of hazardous waste business this year increased significantly compared with the previous year
	Depreciation and amortisation	3,982	1.32	1,567	0.77	154.08	
	Product sales	3,450	1.14	2,687	1.33	28.4	
	Other manufacturing expenses	9,299	3.08	1,744	0.86	433.26	
	Subtotal	22,612	7.49	7,502	3.7	201.41	
Total		301,873	100	202,542	100	49.04	Nil

Cost analysis and other explanation

Nil

(4). Major customers and major suppliers

A. Major customers of the Company

Sales from the top five customers amounted to RMB2,103.7115 million, accounting for 46.38% of the total sales for the year; among which, sales from related parties was RMB0, accounting for 0% of the total sales for the year.

B. Major suppliers of the Company

Procurement from the top five suppliers amounted to RMB812.15 million, accounting for 24.06% of the total procurement for the year; among which, procurement from related parties was RMB0 million, accounting for 0% of the total procurement for the year.

Other explanation

Nil

3. Expenses

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

4. Research and development investment

(1). Research and development investment

Unit: 0'000 Currency: RMB

Expensed research and development investment for the current period	1,834.50
Capitalised research and development investment for the current period	541.74
Total research and development investment	2,376.24
Percentage of total research and development investment over operating revenue (%)	0.52
Ratio of capitalised research and development investment (%)	22.80

3. Management Discussion and Analysis

(2). Research and development personnel

Number of research and development personnel in the Company	287
Percentage of the number of research and development personnel over the total number of personnel of the Company (%)	12.48
Education of research and development personnel	
Academic Category	Number of Personnel
Doctoral Degree	4
Master Degree	42
Undergraduate Degree	211
Vocational education	29
High school education and below	1
Age of research and development personnel	
Age Category	Number of Personnel
Age under 30 (exclude age 30)	55
Age 30 to 40 (include age 30, exclude age 40)	149
Age 40 to 50 (include age 40, exclude age 50)	67
Age 50 to 60 (include age 50, exclude age 60)	16
Age 60 or above	0

(3). Explanation

Not applicable

5. Cash flow

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

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

Not applicable

(3) ANALYSIS OF ASSETS AND LIABILITIES

Assets and liabilities

Unit: 0'000 Currency: RMB

Items	Amount as at the end of the current period	Percentage of the amount as of the end of the current period to the total assets (%)	Amount as at the end of the previous period	Percentage of the amount as of the end of the previous period to the total assets (%)	Percentage of change in amount as at the end of the current period as compared with the end of the previous assets (%)	Explanation
Notes receivable	812.30	0.04	265.60	0.01	205.84	Mainly due to new bank acceptance notes receivable during the current period.
Non-current assets due within one year	24,111.40	1.14	2,004.90	0.11	1,102.62	Mainly due to recognition of availability service fees receivable due within one year in accordance with the "Interpretation of Accounting Standards for Business Enterprises No. 14" during the current period.
Other current assets	5,089.60	0.24	8,222.80	0.44	-38.10	Mainly due to the decrease in input VAT to be deducted during the current period.
Long-term receivables	381,190.40	18.10	164,740.20	8.76	131.39	Mainly due to recognition of availability service fees for PPP projects of the Company as long-term receivables in accordance with the "Interpretation of Accounting Standards for Business Enterprises No. 14" during the current period.
Construction in progress	2,966.00	0.14	985.90	0.05	200.84	Mainly due to the increase in investment in the construction of hazardous waste and projects under non-franchise model during the current period.
Right-of-use assets	902.10	0.04	0	0	Not applicable	The right of the water plant to use liquid oxygen tanks on a lease basis was recognized as a leased asset in the current period in accordance with the provisions of Accounting Standard for Business Enterprises No. 21 – Lease (2018 Revision), there was no such incident in the same period of the previous year.
Goodwill	40,546.10	1.92	0	0	Not applicable	Mainly due to recognition of goodwill on the hazardous waste projects acquired during the current period.
Deferred income tax assets	1,926.80	0.09	1,296.50	0.07	48.62	Mainly due to recognition of availability service fees for PPP projects of the Company as long-term receivables as the balance of provision for bad debts increases, deferred tax assets increase accordingly in accordance with the "Interpretation of Accounting Standards for Business Enterprises No. 14" during the current period.
Other non-current assets	45,088.90	2.14	33,097.10	1.76	36.23	Mainly due to recognition of business contract assets from the infrastructure and construction of water plant and the increase in input VAT to be deducted in accordance with the "Interpretation of Accounting Standards for Business Enterprises No. 14" during the current period.

3. Management Discussion and Analysis

Items	Amount as at the end of the current period	Percentage of the amount as of the end of the current period to the total assets (%)	Amount as at the end of the previous period	Percentage of the amount as of the end of the previous period to the total assets (%)	Percentage of change in amount as at the end of the current period as compared with the end of the previous assets (%)	Explanation
Short-term borrowings	14,585.20	0.69	0	0	Not applicable	Mainly due to new short-term borrowings of the Company and the subsidiary Shandong Company during the current period.
Payables	42,952.20	2.04	29,497.30	1.57	45.61	Mainly due to the increase in the purchase amount of material inventory payable.
Non-current liabilities due within one year	95,713.90	4.54	159,626.30	8.49	-40.04	Mainly due to the repayment of RMB700 million of corporate bond due in 2021.
Long-term borrowings	719,716.70	34.17	422,789.40	22.49	70.23	Mainly due to combined progress of project construction, the operation needs of the water plant and the and capital income and expenditure plans withdrawal of long-term borrowings during the current year.
Bonds payable	25,000.00	1.19	109,884.80	5.84	-77.25	Mainly due to the repayment of RMB1,100 million of corporate bond due in 2021, issued RMB250 million of new corporate bond.
Lease liabilities	623.00	0.03	0	0	Not applicable	The present value of the unpaid lease payments for the lease of liquid oxygen tanks leased by the water plant was recognized as a lease liability in the current period, in accordance with the provisions of Accounting Standard for Business Enterprises No. 21 – Leases (2018 Revision), and there was no such event in the same period last year.

(4) ANALYSIS OF INVESTMENT

1. Overall analysis of equity investment

During the reporting period, the Company's equity investment was distributed in the water utilities business, the new energy heating and cooling business and other business, which was mainly used for the establishment of project companies or provide additional investment for capital increase of project companies. The total amount of equity investment in 2021 was at approximately RMB268.4136 million, representing a decrease of 73%, which was mainly because of the acquisition of two hazardous waste projects, namely, Compro Company, and Yonghui Company, with a substantial amount, and was included in the total equity investment in the previous year.

(1) Major equity investment

- (1) On 21 January 2021, the Board approved to establish Honghu Tianchuang Capital Environmental Protection for the purpose of investment, financing, construction, operation and maintenance of newly built and upgrade and supporting pipeline network (phase II) PPP project of Honghu township sewage water processing plant. The registered capital was RMB60 million, of which RMB53.4 million was contributed by the Company, representing 89% of the total investment; RMB600,000 was contributed by CCCC Tianjin Dredging Co., Ltd.* (中交天津航道局有限公司), representing 1% of the total investment; and RMB6 million was contributed by Honghu Water Pollution Control Centre on behalf of the government, representing 10% of the total investment. During the reporting period, such capital injection has been completed.
- (2) On 30 April 2021, the Board approved to establish Tianjin Xiqing Tianchuang Company for the purpose of investment and financing, operation and maintenance of the TOT project of Dasi Sewage Treatment Plant of Xiqing District. The registered capital was RMB62.1060 million, of which RMB62.1060 million was contributed by the Company, representing 100% of the total investment; during the reporting period, such capital injection been completed.

3. Management Discussion and Analysis

- (3) On 30 April 2021, the Board approved the Company to increase the capital of Fuyang Company for the PPP Project (Third Batch) of Sewage Treatment in Jieshou City. The total investment of this project was expected to be RMB219.2584 million and the capital of the project accounts for 30% of the project's total investment, amounting to RMB65.7802 million. After the Company first made capital contribution of RMB65.7802 million to Fuyang Company, Fuyang Company then made a capital contribution of RMB65.7802 million to Jieshou Capital Water Co., Ltd* (界首市創業水務有限公司). Upon completion of the capital increase, the registered capital of Fuyang Company was increased from RMB389.9085 million to RMB455.6887 million. During the reporting period, such capital increase has been completed.
- (4) On 27 September 2021, the Board approved the Company to increase the capital of Wendeng Company for the advanced treatment and upgrading project of Wendeng Sewage Treatment Plant. The total investment of this project amounted to RMB23.7579 million, the capital of the project accounted for 30% of the project's total investment which amounted to RMB7.1274 million, which was intended to be settled by the increase in capital contribution from the Company. After the completion of capital increase, the registered capital of Wendeng Company increased from RMB61.40 million to RMB68.5274 million and Wendeng Company remained a wholly-owned subsidiary of the Company. During the reporting period, such capital increase has been completed.
- (5) On 27 September 2021, in order to minimize the environmental control risk at the enterprise level, expand the overall hazardous waste market business in Shandong and increase its market share, the Board approved the separation of Shandong Company by means of spin-off. The legal representative, operation scope and type of company of Shandong Company subsisting after the completion of spin-off remained unchanged. The registered capital changed from the original RMB192 million to RMB82 million, and the shareholding structure and proportion remained unchanged. After spin-off, the company name of Tancheng Branch has been changed to Shandong Tanchuang Environmental Protection Technology Development Co., Ltd.* (山東鄒創環保科技發展有限公司) and the registered capital was RMB110 million. The shareholding structure after spin-off and the shareholding structure of Shandong Company before spin-off remained the same. Of which, the shareholding proportion of the Company, Dalian Dongtai Industrial Waste Treatment Co., Ltd.* (大連東泰產業廢棄物處理有限公司) and Dalian Dongtai Zhongxin EnviroTech Foundation* (大連東泰眾鑫環保科技中心) was 55%, 40% and 5%, respectively. During the reporting period, such spin-off has been completed.

(6) On 19 November 2021, the Board approved to establish Tianjin Jiayuankaichuang New Energy Technology Co., Ltd.* (天津佳源開創新能源科技有限公司), which was responsible for the investment, construction, operation and maintenance of the licensed operation project of energy station 1# in Houtai Park of Tianjin. The registered capital was RMB80 million, of which RMB80 million was contributed by the Company, representing 100% of the total investment. During the reporting period, such capital contribution has not been completed.

(2) Major non-equity investment

Not applicable

(3) Financial assets measured by fair value

Not applicable

(5) DISPOSAL OF MAJOR ASSETS AND EQUITY INTEREST

(1) International Machinery Company is a company that Sino Company, a wholly-owned subsidiary of Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd. (a wholly-owned subsidiary of the Company) has invested in. International Machinery Company was incorporated in June 2005 with registered capital of RMB120 million. Sino Company owned 27.5% equity interests of International Machinery Company. For the smooth implementation of liquidation of Sino Company, on 14 July 2021, the Board approved Sino Company to transfer the equity interests in International Machinery Company held by it to the Company by means of an agreement. The net asset value corresponding to the 27.5% equity interest held by Sino Company amounted to RMB21.5711 million. During the reporting period, such equity transfer has been completed.

(2) On 7 December 2021, according to the specific requirements under the overall deployment of deepening the reform of state-owned enterprises by Tianjin State-owned Assets Supervision and Administration Commission of the State Council and coupled with the actual circumstances of the Company, the Board has approved the deregistration of Sino Company. During the reporting period, such deregistration has been completed.

The aforesaid transfer of equity interest and deregistration have no impact on the financial position and operating results of the Company.

3. Management Discussion and Analysis

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

Unit: 0'000 Currency: RMB

Subsidiary	Principal Place of Business	Major Products or Services	Registered Capital	Type of Legal Person	Shareholding of the Company	Asset Size	Net Assets	Net Profits
Water Recycling Company	Tianjin	Production and sales of recycled water; development and construction of water recycling facilities; and manufacturing, installation, debugging, and operation of water recycling facilities, etc.	10,000	Limited company	100%	119,954.60	31,826.31	10,801.31
Hangzhou Company	Hangzhou, Zhejiang	facilities for sewage treatment and recycled water usage, and supporting services such as its technical services and technical training	37,744.50	Limited company	70%	85,468.20	68,577.30	5,935.09
Xi'an Company	Xi'an, Shaanxi	Development, construction, operation, and management of municipal sewage treatment plants, and tap water and its supporting facilities; and R&D and promotion of environment protection technology	47,617	Limited company	100%	95,976.28	59,841.94	3,785.68
Jiayuanxing	Tianjin	Development, consulting, service, and transfer of energy conservation and new energy technologies; and property management services	19,195.052	Limited company	100%	66,205.05	35,433.68	2,484.70
Caring Company	Tianjin	Environmental engineering management and technical advice etc.	3,333.3333	Stock Limited Company	60%	18,418.72	12,612.91	1,241.08
Bayannur Company	Bayannur, Inner Mongolia	Processing of sewage water, production and sales of recycled water and supply of tap water	106,757.79	Limited company	70%	113,231.55	110,334.05	-584.72
Shandong Company	Shandong	Solid waste and hazardous waste treatment and disposal	8,200	Limited company	55%	46,392.31	8,666.38	-875.56
Fuyang Company	Fuyang, Anhui	Development, construction and management of municipal sewage treatment plants, tap water and their supporting facilities and solid waste treatment facilities; Research and development and promotion of environmental protection technology	45,568.87	Limited company	100%	121,871.92	59,434.51	9,000.10

Water Recycling Company recorded a revenue of RMB310.1167 million from principal operations and an operating profit of RMB146.4096 million in 2021.

Hangzhou Company recorded a revenue of RMB261.0066 million from principal operations and an operating profit of RMB79.7863 million in 2021.

(7) STRUCTURED ENTITIES CONTROLLED BY THE COMPANY

Not applicable

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

(1) STATUS AND TRENDS OF THE INDUSTRY

According to the Guiding Opinion on Accelerating the Promotion of Construction of Urban Environmental Infrastructures (《關於加快推進城鎮環境基礎設施建設的指導意見》) published by NDRC, Ministry of Ecology and Environment, Ministry of Housing and Urban-Rural Development and the National Health Commission on February 2022, it essentially clarifies the increment potential for the water and environmental protection market by the end of the “14th Five-Year Plan”. The above document proposed the main objectives of urban environmental infrastructure construction by 2025 as follows:

For sewage treatment and resources utilisation, 20 million m³ per day of sewage treatment capacity will be added, 80,000 km of sewage collection pipeline network will be added and transformed, new construction, redevelopment, and expansion will produce no less than 15 million m³ of recycled water per day, the sewage treatment rate of county cities will reach more than 95%, the recycling utilisation rate of sewage treatment of prefecture-level or above cities faced with water shortage will reach 25% or above and the harmless disposal rate of municipal sludge shall reach over 90%.

For domestic waste treatment, the classification, collection and delivery capability of domestic waste will reach approximately 700,000 tons per day, the treatment capacity of rural domestic waste incineration will reach 800,000 tonnes per day, the utilisation rate of urban domestic waste will reach about 60% and the proportion of city domestic waste incineration to harmless treatment capability will reach approximately 65%.

For solid waste disposal, the capacity of solid waste disposal and comprehensive utilisation has been significantly improved, the utilisation scale has been continuously expanded and the comprehensive utilisation rate of newly-added bulk solid waste has reached 60%. Hazardous waste and medical waste disposal complemented the shortcomings of hazardous waste and medical waste collection and treatment facilities, fully ensure the hazardous waste disposal capacity, further improve the technical and operational level and complete the construction of harmless disposal facilities in cities above the county level.

3. Management Discussion and Analysis

In general, the increments for the sewage treatment market is limited, while the growth rate of the domestic waste and solid waste treatment market is relatively higher. From this, it can be foreseen that the integration and upgrading of the sewage treatment capacity market will become the focus, and the development of the domestic waste and solid waste market will also bring about intensified competition.

(2) DEVELOPMENT STRATEGY OF THE COMPANY

The Company, which situates in the first echelon of the domestic water and environmental protection industry, will continue to solidify and enhance the advantages of the water business, focus on sewage treatment, focus on water supply and recycled water, and improve the industrial chain while seeking to further increase the scale with high-quality projects, as well as endeavoring to enhance the controllability of high value-added processes. The Company will continue to expand industrial and organic solid waste material business, new energy cooling and heating business and environmental protection technology business, so as to further increase the proportion of emerging environmental protection business segments, promote the optimization of business structure and accelerate the formation of comprehensive environmental service capabilities, which lay down a foundation for the innovative capability of business models. In accordance with the principle of “combining light-and-heavy assets”, the Company will gradually build an asset-light operation service platform, adhere to the operation advantages and gradually form multi-dimensional service capabilities covering craftsmanship optimization, equipment integration, supply of medicines, operation services, personnel training, environmental protection technology, and smart water services, then build a professional operation service brand to promote empowerment and efficiency. The Company will continue to optimize the organizational structure to meet strategic needs, strengthen technological leadership, strengthen risk control, improve management quality, highlight business authorization, promote resource integration and improve regional layout, so as to play the role of a professional company and explore new models and new platforms. The Company will pay attention not only to the emerging markets, but also to the existing markets; not only pay attention to the moderate scale improvement, but also promote the continuous optimization of business structure, regional structure and financial structure; adhere to the combination of continuous development and leapfrog development, thereby find a feasible path to effectively promote the realization of strategic goals.

(3) OPERATING PLANS

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

In 2021, the Company undertake the upward trend of the previous year, improved the level of market-orientation through rectification, concentrated comprehensive management capabilities, to achieve high-quality development, demonstrate the mission of a listed company, and ensure the operation strategy and operation plan formulated by the Board at the beginning of the year has been completed.

2. In order to ensure the implementation of “14th Five-Year” strategic plan, to achieve high-quality development, the Company will change the operation philosophy, optimize the regional investment structure, and take the initiative to carry out strategic planning and project planning. We will execute new initiatives in the capital market through various financing channels. Improve the intelligence and effectiveness of management, and further explore potential and increase efficiency. Continue to deepen reform and improve risk prevention and control capabilities. Continue to increase investment in technology, integrate and optimize the technology resources, chance technology leading concept. Meanwhile, we will continue to maintain capital management and risk prevention and control, and actively explore fund management issues and countermeasures under the new situation.

3. Income, expenses, and cost plan:

In 2022, it is expected that the sewage treatment business will remain as the principal business of the Company, and the annual sewage treatment will be not less than 1.55385 billion m³. With the rise of applicable water discharge standards to various water projects in Tianjin and other cities and the continuous increase in costs of various types of resources, energy, and labor, the operation costs of projects have increased. If there are no major changes in the prevailing national guidelines, policies, and business environment, it is expected that the amount of variation in revenue from and cost for the sewage treatment service will not be higher than 30%.

4. Plan for investment in technology R&D:

In 2022, the Company will invest not less than approximately RMB38.15 million in technology R&D plus development and technological reforms, and will continue to conduct research and development on the new technical processes and application technologies in the areas of sewage water treatment and sludge treatment, etc.

3. Management Discussion and Analysis

The operational strategies for 2022 are as follows:

First, maintain Party's leadership, allow the key members of Party committees and Party organizations at all levels to contribute to the implementation of the strategy, promote business operations through Party building, and strengthen the integration of Party building and business.

Second, combine the macroeconomic changes and industry development trends, to clarify the strategic objectives during the "14th Five-Year Plan" period and determine the path to achieve them.

Third, optimize the organizational structure and staffing, strengthen the strategic control of the Group, focusing on corporate governance, strategic management, business management, operation management, investment and financing and financial management, institutional mechanism reform, compliance management and other management functions, to further firm up business operation functions.

Fourth, construct a full-field and full-cycle business management model, for water business and strategic new business, covering development, construction, operation and other aspects, unified planning, unified local, overall management, improve management efficiency, promote the improvement of environmental comprehensive service capabilities, and explore new business models.

Fifth, integrate existing business entities, give play to the role of regional strategic distribution and the role of new business development carriers of professional companies, and form a new layout for business development with clear subjects, clear goals, clear authorisation and responsibilities, and clear incentives.

Sixth, coordinate the company's financing and investment, accelerate leapfrog development, broaden financing channels in financing, explore asset revitalization, and pay attention to both the existing market and the emerging market in terms of investment.

(4) POSSIBLE RISKS

1. Possible risks

(1) Risk of government credit

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

(2) Risk of change in policy

Currently, the PRC is at the stage of comprehensive deep reform. In the foreseeable future, there will be transformative changes in policies related to economy, finance, prices, financial taxation and government functions, etc. Moreover, although enterprises are the service targets hazardous waste treatment of businesses, they may also be impacted by regional industrial policies, that is, regional industrial upgrading and cross-regional industrial transfer may lead to changes in the amount of hazardous waste generated in such region. As a social investor, the risk of policy change needs to be focused on. In addition, after the end of the franchise period, whether it can continue to obtain the operating rights of the project will also pose a potential risk.

3. Management Discussion and Analysis

(3) Risk of operation and management

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

2. *Risk control measures*

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

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

(2) Enhance overall risk management

Determine the target for comprehensive risk management, establish the institutional framework for comprehensive risk management, strengthen the research and assessment and alertness of various policy risks, to identify, analyze, assess and deal with possible hidden risks in different business segments; improve the risk management system and establish a sound and comprehensive risk management system for the Company; improve its timing and efficiency of the comprehensive risk management of the Company; conduct the dynamic management and effective control over risks so as to reasonably ensure the achievement of the Company's strategic targets. Moreover, on a strategic level, advancing structural transformation of enterprise is an essential strategy to reduce operational risks.

- (3) Continue to raise the standards of operational management

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

- (5) OTHERS

Not applicable

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

Not applicable

4. Corporate Governance

I. DESCRIPTION OF CORPORATE GOVERNANCE

(1) Corporate Governance

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

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

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

(2) Corporate Governance Report

1. *About Corporate Governance Practices*

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

2. *About Securities Transactions by the Directors*

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

After making detailed enquiries by the Board, as at the end of the reporting period, save of Mr. Zhang Jian holding 822 domestic Shares of the Company (please refer to "III. INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT" for details), none of the Directors of the Company held any other share of the Company and they did not conduct any share transaction during the reporting period.

4. Corporate Governance

3. *About the Board*

According to the Articles of Association of the Company, the Board of the Company shall consist of nine Directors. Currently, the Board consists of nine Directors, including Mr. Liu Yujun (Chairman of the Board), Ms. Wang Jing and Mr. Niu Bo as executive Directors; Mr. Gu Wenhui, Mr. Si Xiaolong and Mr. Liu Tao as non-executive Directors; Ms. Lu Yingying, Mr. Xu Zhiming and Mr. Guo Yongqing as independent non-executive Directors. During the reporting period, the original non-executive Directors Mr. Di Xiaofeng and Mr. Wang Xiangfei resigned from the positions as a result of personal development and health reasons. Upon approval by the Company's general meeting, Ms. Lu Yingying replaced Mr. Di Xiaofeng and Mr. Xu Zhiming replaced Mr. Wang Xiangfei as independent non-executive Directors of the Company. Mr. Liu Tao was a candidate for appointment as a Director of the eighth session of the Board of the Company nominated by the shareholders (Ningbo Ningdian Investment Development Co., Ltd.* (寧波寧電投資發展有限公司)) and its parties acting-in-concert Ningbo BSL Trade Co., Ltd.* (寧波百思樂斯貿易有限公司) and LVNENG Investment & Development Co., Ltd. (Hong Kong)* (綠能投資發展有限公司(香港)), who in aggregate held more than 3% of the shares of the Company, and Mr. Liu Tao was approved by the shareholders' meeting of the Company as non-executive Director.

There was no relationship including financial, business, family or other material and relevant relationship between the members of the Board of the Company. All of the Board members possess immense qualifications and management experience. The qualifications and professional experiences of the independent non-executive directors have fully complied with the requirements under the Listing Rules. The Board of the Company has accepted the declaration of independence for the year 2021 by each independent non-executive Director, and confirms that they comply with the relevant independence requirements as set out under Rule 3.13 of the Listing Rules of the Stock Exchange.

The Company held 24 Board meetings and 5 general meetings during the reporting period. For details of the attendance of Directors, please refer to "Attendance of Directors at the Board meetings and general meetings" in this section.

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

Trainings for Directors in 2021

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

The terms of the eighth session of the Board of the Company expired on 17 December 2021. As the nomination of the candidates of director(s) for the election of the new session of the Board of the Company and related works has not been completed, in order to ensure the continuity and stability of the Board of the Company and our operation and management, the terms and the date of election of the Board are extended. The Directors of the Company are to continue to perform their duties. For details, please refer to the Company’s indicative announcement on the extension of the terms of the Board and the Supervisory Committee dated 16 December 2021. The term for the committees of the Board and senior management of the Company will also be extended correspondingly.

4. Corporate Governance

4. *About the Chairman and the Chief Executive Officer*

In accordance with the Articles of Association of the Company, the Chairman is responsible for holding and presiding over the Board meetings, and the effective operation of the Board, while the General Manager of the Company is responsible for various operation activities of the Company, and is accountable to the Board. The appointment of the Chairman should be approved by more than a half of all the Directors while the General Manager should be nominated by the Chairman with his appointment to be approved by the Board.

During the reporting period, Mr. Tang Fusheng was the former General Manager of the Company and resigned from the position as a result of work rearrangement. Upon approval by the Company's general meeting in 8 February 2021, Mr. Li Yang replaced Mr. Tang Fusheng as a General Manager of the company.

5. *About Non-executive Director*

On 17 December 2018, Mr. Si Xiaolong as a non-executive Director and Mr. Di Xiaofeng, Mr. Wang Xiangfei and Mr. Guo Yongqing as independent non-executive Directors of the eighth session of the Board of the Company were elected. Mr. Gu Wenhui as a non-executive Director elected by the 2019 Annual General Meeting. During the reporting period, Mr. Di Xiaofeng and Mr. Wang Xiangfei were independent non-executive Directors who resigned from the positions as a result of personal development. Mr. Liu Tao, as a non-executive Director, Ms. Lu Yingying and Mr. Xu Zhiming as independent non-executive Directors of the Company were elected at the 2021 third extraordinary general meeting by shareholders on 11 November 2021.

6. *About Committees under the Board*

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

During the reporting period, the Company held 5 meetings of the Remuneration and Assessment Committee, which mainly discussed the remuneration of the new directors, general managers, deputy general managers and chief accountants of the Company during the reporting period, the completion and appraisal of the 2020 annual indicators, and the performance appraisal plan of senior management personnel in 2021. The members of the Remuneration and Assessment Committee attended all the meetings held during the reporting period.

- (2) Members of the Nomination Committee of the Board include two executive Directors (being Mr. Liu Yujun, the Chairman, and Ms. Wang Jing, the executive Director) and three independent non-executive directors with Ms. Lu Yingying was appointed as the Chairman. The primary duties of the Nomination Committee are to study and propose candidates, selection criteria and procedures of Directors and senior management of the Company. For its written working scope, please refer to the Terms of Reference for the Nomination Committee of the Company which is available on the website of the Stock Exchange.

4. Corporate Governance

In respect of the nomination procedures as well as the selection and recommendation of candidates for the Director, the Articles of Association of the Company provides that, the Board of the Company and shareholders representing, in aggregate, more than 10% of the total shares of the Company may nominate candidates for the Director of the Company. The Nomination Committee under the Board of the Company shall make suggestions to the Board regarding the nomination, selection and recommendation of candidates of Directors pursuant to the Implementation Rules for the Nomination Committee of the Company. The appointment of executive Directors is determined by the general meetings. The nomination and appointment of the executive Directors and non-executive Directors have been carried out in accordance with the above-mentioned procedures of nomination, selection and recommendation. In addition, the qualifications for acting as independent non-executive Directors are subject to review and approval by SSE. Nomination Committee considers that the current members of directors are in conformity with the Implementation Rules for the Nomination Committee of the Board of the Company, board diversity policy as well as the present situation and future development plan of the Company in terms of gender, age, cultural and educational background, professional experience, skills.

During the reporting period, the Company held 3 meetings of the Nomination Committee which discussed matters in relation to the nomination of Mr. Li Yang as the general manager Mr. Zhao Mingwei as the deputy general manager, Mr. Liu Tao, Ms. Lu Yingying and Mr. Xu Zhiming as the Directors of the eighth session of the Board and Ms. Jing Wanying as the chief accountant of the Company.

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

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

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

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

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

4. Corporate Governance

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

No Strategy Committee meeting was held during the reporting period.

7. *About the Remuneration of Auditors*

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

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

8. *About Company Secretary*

On 18 December 2018, the eighth session of the Board of the Company appointed Ms. Cho Yee Yung, Mona of Li & Partners as company secretary and the authorised representative of the Company under Rule 3.05 of the Listing Rules. Ms. Cho Yee Yung, Mona attended not less than 15 hours of relevant professional trainings during financial year 2021 in accordance with Rule 3.29 of the Listing Rules. Ms. Cho Yee Yung, Mona mainly contacts Mr. Niu Bo, the secretary to the Board of the Company.

9. *About Shareholders' Right*

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

10. *About Investor Relationship*

During the reporting period, in order to facilitate investors to have a deeper and more comprehensive understanding of the company's development strategy, corporate governance, profit distribution, production and operation, sustainable development and so on, the Company participated in the 2020 Tianjin Online Collective Reception Day on Panorama Network on 19 May 2021, held a semi-annual results briefing meeting in the form of online interaction on the Shanghai Securities Roadshow Center of the Shanghai Stock Exchange to exchange answers to investors' concerns on 17 September 2021.

11. *Risk Management and Internal Control*

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

The Audit Committee of the Board of the Company shall hear the year-end report from the legal and audit department and plans of the internal audit as appropriate every year and review the internal control and risk management of the Company.

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

4. Corporate Governance

12. *About Other Specific Disclosures*

The Directors are responsible for supervising the compilation of the accounts for each financial period, in order to ensure that those accounts reflect genuinely and fairly the business and results of the Company for the period. In compiling the accounts for the year ended 31 December 2021, the Directors have chosen and thoroughly applied the appropriate accounting policies with due and reasonable judgment and estimates having been made, and prepared the accounts on a going concern basis.

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

The Board of the Company has constantly monitored the internal control of the Company. At the 70th meeting of the eighth Board held on 24 March 2022, the resolution in respect of the internal control of the Company in 2021 was solely considered and a self-evaluation report on internal control was issued. PricewaterhouseCoopers Zhong Tian LLP has audited the internal control of the Company during 2021, and has issued a standard unqualified audit opinion.

II. SHAREHOLDERS' GENERAL MEETINGS

Session of meeting	Date of meeting	Inquiry index for the designated website for publishing the voting results	Date of disclosure of the resolutions
2021 first extraordinary general meeting	26 January 2021	Website of the SSE at www.sse.com.cn ; Website of the Stock Exchange at www.hkex.com.hk ; Website of Merrill IFN at http://www.ifn.com.hk/ir/tjcep/	27 January 2021
2020 Annual General Meeting	27 May 2021	Website of the SSE at www.sse.com.cn ; Website of the Stock Exchange at www.hkex.com.hk ; Website of Merrill IFN at http://www.ifn.com.hk/ir/tjcep/	28 May 2021
2021 second extraordinary general meeting, 2021 first A shareholders' class meeting, and 2021 first H shareholders' class meeting	15 October 2021	Website of the SSE at www.sse.com.cn ; Website of the Stock Exchange at www.hkex.com.hk ; Website of Merrill IFN at http://www.ifn.com.hk/ir/tjcep/	16 October 2021
2021 third extraordinary general meeting	11 November 2021	Website of the SSE at www.sse.com.cn ; Website of the Stock Exchange at www.hkex.com.hk ; Website of Merrill IFN at http://www.ifn.com.hk/ir/tjcep/	12 November 2021
2021 fourth extraordinary general meeting, 2021 second A shareholders' class meeting, and 2021 second H shareholders' class meeting	24 December 2021	Website of the SSE at www.sse.com.cn ; Website of the Stock Exchange at www.hkex.com.hk ; Website of Merrill IFN at http://www.ifn.com.hk/ir/tjcep/	25 December 2021

4. Corporate Governance

III. INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position held (note)	Gender	Age	Appointment date	Termination date	No. of shares held at the beginning of the year (shares)	No. of shares held at the end of the year (shares)	Changes in number of shares for the year	Reason for changes	Aggregate pre-tax remunerations received from the Company during the reporting period (RMB: 0'000)	Whether remuneration was received from related parties of the Company
Liu Yujun	Executive Director, Chairman	M	56	13 March 2015	17 December 2021	0	0	0	No change	115.63	No
Wang Jing	Executive Director	F	51	18 December 2018	17 December 2021	0	0	0	No change	98.59	No
Niu Bo	Executive Director	M	45	18 December 2018	17 December 2021	0	0	0	No change	82.48	No
	Secretary of the Board			29 January 2016	17 December 2021						
Gu Wenhui	Non-executive Director	M	45	13 May 2020	17 December 2021	0	0	0	No change	0	Yes
Si Xiaolong	Non-executive Director	M	45	18 December 2018	17 December 2021	0	0	0	No change	0	Yes
Liu Tao	Non-executive Director	M	38	11 November 2021	17 December 2021	0	0	0	No change	0	Yes
Guo Yongqing	Independent non-executive Director	M	47	18 December 2016	17 December 2021	0	0	0	No change	22.00	No
Lu Yingying	Independent non-executive Director	F	46	11 November 2021	17 December 2021	0	0	0	No change	2.2	No
Xu Zhiming	Independent non-executive Director	M	61	11 November 2021	17 December 2021	0	0	0	No change	2.2	No
Lu Hongyan	Supervisor	F	52	17 May 2017	17 December 2021	0	0	0	No change	82.14	No
	Chairwoman of the Supervisory Committee			18 December 2018	17 December 2021						
Wu Baolan	Supervisor	F	53	24 August 2011	17 December 2021	0	0	0	No change	56.39	No
Niu Jing	Supervisor	F	51	18 December 2015	17 December 2021	0	0	0	No change	57.10	No
Li Zongqiang	Supervisor	M	51	18 December 2012	17 December 2021	0	0	0	No change	0	Yes
Shen Yue	Supervisor	F	46	18 December 2018	17 December 2021	0	0	0	No change	56.21	No
Huang Lan	Supervisor	F	50	18 December 2018	17 December 2021	0	0	0	No change	48.84	No
Li Yang	General Manager	M	52	8 February 2021	17 December 2021	0	0	0	No change	114.01	No
	Former Deputy General Manager			15 March 2017	8 February 2021						
Zhao Yi	Deputy General Manager	M	51	18 October 2010	17 December 2021	0	0	0	No change	98.59	No
Zhang Jian	Deputy General Manager	M	52	17 January 2012	17 December 2021	822	822	0	No change	98.59	No
Li Jinhe	Deputy General Manager	M	51	29 August 2017	17 December 2021	0	0	0	No change	98.59	No
	Chief engineer			1 January 2020	17 December 2021						
Zhao Mingwei	Deputy General Manager	M	41	8 February 2021	17 December 2021	0	0	0	No change	80.48	No
Jing Wanying	Chief Accountant	F	45	19 November 2021	17 December 2021	0	0	0	No change	8.06	No
Di Xiaofeng	Independent non-executive Director (Resigned)	M	60	18 December 2018	11 November 2021	0	0	0	No change	19.8	No
Wang Xiangfei	Independent non-executive Director (Resigned)	M	69	18 December 2015	11 November 2021	0	0	0	No change	19.8	No
Tang Fusheng	Former General Manager (Resigned)	M	48	26 January 2017	8 February 2021	0	0	0	No change	19.12	No
Peng Yilin	Chief Accountant (Resigned)	F	41	29 January 2016	19 November 2021	0	0	0	No change	81.98	No
Total	/	/	/	/	/	822	822	0	/	1,262.80	/

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

As at 31 December 2021, the interests and/or short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which were taken as or deemed to have pursuant to the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or otherwise, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

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

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

As at 31 December 2021, none of the directors, supervisors or chief executives of the Company or their spouses or children under 18 years of age were granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

4. Corporate Governance

Name	Primary working experience
Liu Yujun	<p>Mr. Liu is now the investment director of Tianjin Investment Group and the chairman of the Company. Mr. Liu was the chief accountant of Tianjin No. 4 Municipal Engineering Company from December 1996 to August 2000; the chief accountant of Tianjin Metro General Company from August 2000 to October 2007; the deputy general manager and the chief accountant of Tianjin City Metro Group from October 2007 to November 2008; the deputy chief accountant of Tianjin Investment Group and the deputy general manager and the chief accountant of Tianjin City Metro Group from November 2008 to April 2011; the deputy chief accountant of Tianjin Investment Group, the deputy general manager and chief accountant of Tianjin City Metro Group and the secretary of the party branch, the chairman of the board, and the general manager of Tianjin Metro Resources Investment from April 2011 to April 2013. He has been the deputy chief accountant of Tianjin Investment Group from April 2013 to December 2019; the general manager, secretary of the party general branch, and director of Tianjin Haihe Jinan Investment Construction Development Co., Ltd. from January 2014 to March 2015; and the investment director of Tianjin Investment Group since December 2019. Mr. Liu has been a Director and the chairman of the Company since 13 March 2015.</p>
Wang Jing	<p>Ms. Wang is now a Director and the deputy secretary of the Communist Party Committee and chairwoman of the labour union of the Company. Ms. Wang served as the deputy director, director, and minister of the administration department of Tianjin Municipal Construction Group Co. Ltd. (天津市政建設集團) from June 2007 to December 2010; served as a party branch member, deputy secretary, secretary of the party general branch, chairwoman of the labour union, and director of Tianjin Ziya Circular Economy Industrial Investment and Development Co., Ltd. (天津子牙循環經濟產業投資發展有限公司) from December 2010 to July 2016; acted as a member of the management committee, deputy secretary, deputy director of Tianjin Ziya Circular Economy Industrial District (天津子牙循環經濟產業區) from September 2012 to July 2016; Ms. Wang has been serving as the deputy secretary of the Communist Party Committee and chairwoman of the labour union of the Company since August 2016. Ms. Wang served as the staff representative Supervisor and the chairwoman of the Supervisory Committee of the Company from 24 November 2016 to 17 December 2018. Ms. Wang has been serving as a Director of the Company since 18 December 2018.</p>
Niu Bo	<p>Mr. Niu is now a Director and the secretary of the Board of Directors of the Company, the director of the Office of Corporate Governance and the chairman of Tianjin Capital Environmental Protection Hong Kong Company. Mr. Niu joined the Company in August 2004, and from then to December 2009, he acted as the project manager and deputy department manager of the market development department and the department manager of the strategic investment department of the Company. He was the deputy chief economist of the Company from December 2009 to December 2019. He has concurrently served as the chairman of Hong Kong Company since February 2015. Mr. Niu has been the secretary of the Board of the Company since 29 January 2016. Mr. Niu has been a Director of the Company since 18 December 2018.</p>

Name	Primary working experience
Gu Wenhui	<p>Gu is now a Director of the Company and concurrently serves as the secretary and chairman of the party general branch, and a director of Tianjin Municipal Investment Property Investment and Development Co., Ltd.,. From July 2003 to January 2010, Mr. Gu worked at the Company as the deputy director and director of the board secretariat, the manager of the enterprise planning department and the chief economist. Since January 2010, Mr. Gu has worked at Tianjin Investment Group and successively served as the deputy director of the financing and development department, the deputy director and director of the asset operation department, the director of the office of the board (enterprise planning department), the director of the enterprise management department (office of the board) and the general manager of the enterprise management department (director of the office of the board). From November 2014 to September 2020, he has concurrently served as the director of Tianjin Investment Group. Since November 2016, he has concurrently served as the director of Tianjin Municipal Investment Property Investment and Development Co., Ltd. (天津城投置地投資發展有限公司). Since April 2020, he has concurrently served as the secretary of the party general branch, chairman and general manager of TMICL. Mr. Gu Wenhui has been a Director of the Company since 13 May 2020.</p>
Si Xiaolong	<p>Mr. Si is now a Director of the Company, and the deputy general manager of the strategic planning department (Office of the Board of Directors) of Tianjin Investment Group and concurrently serves as a director of Guokong Jincheng. Mr. Si graduated from the School of Management of Tianjin University with a master degree in business administration. He had worked for Tianjin Road Pipe Network Supporting Construction Investment Limited (天津道路管網配套建設投資有限公司). He joined Tianjin Investment Group in April 2009, engaging in asset management, corporate governance, and other work for a long term. He served as the deputy head of the office of the board of Tianjin Investment Group from July 2016 to December 2019 and acted as the deputy director of the enterprise management department of Tianjin Investment Group from March 2018 to December 2019. Mr. Si has been the deputy general manager of the enterprise management department and the deputy director of the office of the board of Tianjin Investment Group since December 2019, and he has been concurrently serving as a director of Guokong Jincheng from October 2018 and the head of the office of the board of Tianjin Investment Group since March 2021. Mr. Si has been the general manager of the strategic planning department (Office of the Board) of Tianjin Investment Group since November 2021. Mr. Si Xiaolong has been a director of the Company since 18 December 2018.</p>
Liu Tao	<p>Mr. Liu is now a non-executive Director of the Company, and concurrently served as the deputy manager (presiding work) of the investment management department and a director of Ningbo Hangwan Lvzhe New Energy Co., Ltd.* (寧波杭灣綠捷新能源有限公司). Mr. Liu worked for Blue Source Capital Investment Management Co., Ltd.* (浙江藍源投資管理有限公司) in 2011, engaging in investment management of government-guided funds. He served in the investment management department of Ningbo Energy Group Co., Ltd.* (寧波能源集團股份有限公司) (“Ningbo Energy”) in 2014. He served as deputy manager and manager of the investment department of Ningneng Investment Management Co., Ltd.* (寧能投資管理有限公司) and deputy manager of the investment management department of Ningbo Energy. Since August 2021, he has been working as deputy manager of the investment management department of Ningbo Energy. Mr. Liu Tao has been a director of the Company since 11 November 2021.</p>

4. Corporate Governance

Name	Primary working experience
Guo Yongqing	<p>Mr. Guo is a post-doctorate, professor in accounting, and certified public accountant in the PRC. Mr. Guo is now an independent non-executive Director of the Company and an accounting professor of the Shanghai National Accounting Institute. He concurrently served as an Independent non-executive Director of Chongqing Porton Pharmacy Science & Technology Co., Ltd., an Independent non-executive Director of Shanghai Electric Power Company Limited* (上海電力股份有限公司), an Independent non-executive Director of Yango Group Co., Ltd., a director of Ningbo Zhenghai Jianwu Asset Management Co., Ltd., a director of Hwabao Securities Co. Ltd. and a director of Sanxiang Impression Co., Ltd. Mr. Guo has been the department head of Shanghai National Accounting Institute, a director of Huangshan Tourism Development Co.,Ltd. and a director of Chongqing Brewery Co.,Ltd. Mr. Guo has been an independent non-executive Director of the Company since 18 December 2015.</p>
Lu Yingying	<p>Ms. Lu is now an independent non-executive Director of the Company. She is a holder of master's degree in Laws from the Faculty of Law of Fudan University, joined the Shanghai branch of Commerce & Finance Law Offices of Beijing in 2004. Ms. Lu Yingying was qualified as a lawyer of the PRC in 2005, and she was mainly engaged in the business of legal services in the areas of corporate, securities, merger and acquisition and foreign investment laws. During the 16 years of services provided by Ms. Lu Yingying, she had (1) served as lead counsel or team head to participate in the H-share listing of Dongfeng Motor Group Company Limited; the projects of H-share listing and A-share listing of Qinghuangdao Port Co., Ltd.; the project of listing red chips of Sinotruk (Hong Kong) Limited in Hong Kong; the project of listing The United Laboratories International Holdings Limited in Hong Kong; the project of listing China First Chemical Holdings Limited in Hong Kong; and a number of listing projects such as the project of listing A shares of Jiangsu Phoenix Publishing & Media Corporation Limited* (江蘇鳳凰出版傳媒股份有限公司); (2) served as a long-term general legal counsel of various companies such as Dongfeng Motor Group Company Limited; (3) served as lead counsel or team leader to participate in the joint venture project between China National Heavy Duty Truck Group Co., Ltd. and MAN Group of Germany; and the projects between Dongfeng Motor Group Company Limited and certain foreign companies in the establishment of joint ventures in China for the sales of whole vehicles, component parts, automobiles and financial leasing companies. Ms. Lu has been a director of the Company since 11 November 2021.</p>
Xu Zhiming	<p>holds a doctorate in economics. Currently, he is an independent non-executive director of the Company. Mr. Xu Zhiming served as a research analyst of Institute for International Studies in China International Trust and Investment Corporation, and the co-director of corporate finance department and co-director of capital market department of Nomura International (Hong Kong) Limited, a director and the director of investment banking division in the Great China Region of National Westminster Bank of Britain, a director and the director of corporate financing division in the Great China Region of Bank of Boston of the US from July 1986 to August 1999. Mr. Xu Zhiming has been an executive director of China Resources Enterprise, Limited, an executive director of China Resources (Beijing) Land Limited, the managing director and chief operating officer of China Resources Logic Limited from August 1999 to December 2001. Mr. Xu Zhiming has been an executive director and chief operating officer of TOM Group Limited from January 2002 to May 2005. Mr. Xu Zhiming has been a founding partner of China Broadband Capital since March 2006. Mr. Xu has been a director of the Company since 11 November 2021.</p>

Name	Primary working experience
Lu Hongyan	Ms. Lu obtained a doctoral degree in laws from Nankai University. She is the chairwoman of the Supervisory Committee, the general counsel and the director of the enterprise management center of the Company. Ms. Lu served in Tianjin Winners Law Firm (天津金諾律師事務所) and Tianjin Hongyi Law Firm (天津泓毅律師事務所) consecutively from January 2001 to December 2009 as a lawyer. She joined the Company in January 2010 and served as a legal specialist, and has been the general counsel of the Company since January 2016. She is responsible for the legal affairs of the Company. Ms. Lu has rich legal experience in economic and corporate governance. Ms. Lu has been a Supervisor of the Company since 17 May 2017 and the Chairwoman of the Supervisory Committee of the Company since 18 December 2018.
Wu Baolan	Ms. Wu is now a Supervisor of the Company and the head of the party-masses department of the Company. Ms. Wu joined the Company in December 2000 as the assistant to the general manager of the human resource department of the Company. Ms. Wu was the director of office of Rijiyuan Company under TMICL from December 2004 to December 2005. Ms. Wu joined the Company again in December 2005, and acted as the vice head of the party-masses department of the Company, the Chairwoman of the institutional labour union of the Company, and the head of the party-masses department of the Company. Ms. Wu has been elected as the Supervisor on behalf of the Company's staff since 24 August 2011.
Niu Jing	Ms. Niu is now a Supervisor of the Company, the deputy director of the corporate governance center and an assistant accountant. Ms. Niu Jing graduated from Tianjin University of Finance and Economics in 1993, majoring in finance. She worked as an accountant in Tianjin Xianda Hotel (天津先達酒店) from 1993 to 1995; worked as the financial controller in Tianjin Shandong McDonald's Food Co., Ltd. (天津山東麥當勞食品有限公司) from 1995 to 2002; and worked as the financial manager and internal control manager of Tianjin Jiafu Commercial Co., Ltd. (天津家福商業有限公司) from 2002 to 2009. She joined the Company since July 2009 and served as the manager of the legal and audit department of the Company since then. Ms. Niu has been a Supervisor of the Company since 18 December 2015.
Li Zongqiang	Mr. Li is now an accountant. Mr. Li now serves as the Supervisor of the Company, the director of the risk management department of TMICL, and concurrently serves as the Secretary of the party sub-branch and chairman of Tianjin Municipal Investment Construction and Engineering Management Consulting Co., Ltd. (天津城投建設工程管理諮詢有限公司). Mr. Li graduated from Tianjin University of Finance and Economics, majoring in accounting and received a bachelor degree in economics. He is a certified public accountant, a registered tax advisor, and a registered asset appraiser. He had worked for Tianjin Jinhua Accounting Firm (天津津華會計師事務所) and Tianjin Jiwei Accounting Firm (天津吉威會計師事務所). He joined TMICL in 2007, and successively served as the deputy manager of finance department, the chief accountant of Wanning Kaide Investment Company (萬寧凱德投資公司), the financial director of Yuanyicheng Business Operations Management Company (元易誠商業運營管理公司), and other positions, engaging in financial auditing and management for a long term. He has acted as the deputy director of the risk management department of TMICL since April 2017, the head of the risk management department of TMICL since January 2019. Mr. Li Zongqiang has been a Supervisor of the Company since 18 December 2018.

4. Corporate Governance

Name	Primary working experience
Shen Yue	<p>Ms. Shen is now a senior economist and a Supervisor and the head of the organizational department under the Communist Party Committee of the Company. Ms. Shen graduated from Nankai University with a master degree in laws. She joined the Company in 2006, and worked in the party-mass work department. From January 2011 to May 2018, she successively served as the assistant to head and the deputy director of the party-mass work department of the Company, and also acted as the secretary of the first party general branch. Since January 2014, she has served as the deputy director of the party-mass work department of the Company and from November 2016, she was appointed as the deputy director of the party-mass work Department of the Company and was appointed as the head of the organizational department under the Communist Party Committee of the Company from October 2018. Ms. Shen has been a Supervisor of the Company since 18 December 2018.</p>
Huang Lan	<p>Ms. Huang is now a supervisor of the Company, and deputy director and deputy secretary of the party sub-branch of Beicang sewage treatment plant. Ms. Huang joined the preparatory office of the Haihe river basin wastewater treatment project of the Company in March 2002 and has been the director of the general office of the Xianyang Road sewage treatment plant of the Company since March 2005. She has successively served as the deputy director and the director of the general office of the Tianjin water business division of the Company since December 2009. She has been the director of the general office of the Company's branch company for water services since January 2016 and has concurrently served as the secretary of the 4th institutional party branch of the Company since June 2016. She has been the deputy manager of the operation management department and the secretary of the 4th institutional party branch of the Company since April 2017. Since May 2020, she has been the deputy director and deputy secretary of the party sub-branch of Beicang sewage treatment plant. Ms. Huang has been the staff representative supervisor of Company since 18 December 2018.</p>
Li Yang	<p>Mr. Li is now the general manager of the Company, the general manager of the Northwest Region Branch and the East China Region Branch, and the chairman of Xi'an Company and Hangzhou Company. From November 2005 to April 2009, he was the general manager of Fuyang Company, the wholly-owned subsidiary of the Company. From April 2009 to December 2009, he was the general manager of the 2nd water operation branch of the Company. He was the general manager of the eastern region of Tianjin water business division from January 2010 to February 2011 and was the general manager of Xi'an Company since February 2011 to May 2017. Mr. Li was appointed as the assistant to general manager of the Company since January 2012, and as the Chairman of Xi'an Company since September 2015. Mr. Li Yang was a Supervisor of the Company from 8 September 2009 to 15 March 2017. Since 15 March 2017, Mr. Li has served as the deputy general manager of the Company and since September 2020, he has concurrently served as the chairman of Hangzhou Company. Mr. Li has been the general manager of the Company since February 2021.</p>
Zhao Yi	<p>Mr. Zhao is now the deputy general manager of the Company. From August 2005 to March 2009, Mr. Zhao held the positions of the general manager of Qujing Capital Water Co., Ltd. and Tianjin Caring Technology Development Co., Ltd., subsidiaries of the Company. He was the deputy general manager of Tianjin Beiyangyuan Investment Development Co., Ltd. from April 2009 to October 2010. He concurrently acted as the chairman of eight controlling subsidiaries under the non-local business division from November 2010 to September 2015. At the same time, he concurrently served as the general manager of the non-local water business division of the Company from November 2010 to January 2016. Mr. Zhao has been the deputy general manager of the Company since 18 October 2010.</p>

Name	Primary working experience
Zhang Jian	Mr. Zhang is now the deputy general manager of the Company. From April 2006 to December 2009, Mr. Zhang was the administrative deputy general manager (presiding over the work) of Hangzhou Company. He has been the general manager of the non-local water business division of the Zhejiang region and the general manager of Hangzhou Company since December 2009. He has been the chairman of Hangzhou Company, and the director and chairman of Baoying Company since September 2015. He has been the deputy general manager of the Company since January 2012.
Li Jinhe	Mr. Li is now the deputy general manager and the chief engineer of the Company and also the chairman of Caring Company and a senior engineer. He holds a master of engineering degree. Mr. Li graduated from the department of environmental engineering of Hebei University of Science and Technology in 1993 majoring in environmental engineering, and got a master degree from the department of civil engineering of Tianjin University in 1999 majoring in environmental engineering. Mr. Li has served in the 9th design institute of North China Municipal Engineering Design & Research Institute Co., Ltd. since March 1999 and acted successively as the technician, leader of the 2nd Process Group, deputy chief engineer, and chief engineer as well as the deputy chief engineer. Mr. Li has been engaged in municipal engineering design and research works for years and has extensive experience in such fields as water treatment facilities and designing, research and operation of process. Mr. Li has been the chief engineer of the Company since 29 August 2017 and the deputy general manager of the Company since 1 January 2020.
Zhao Mingwei	Mr. Zhao is now the deputy general manager and senior engineer of the Company. He graduated from the College of Architecture and Civil Engineering of Beijing University of Technology with a master degree in architecture and civil engineering. Mr. Zhao worked as an engineer at the Beijing Design and Consulting Branch of China Northeast Municipal Engineering Design & Research Institute from August 2004 to August 2009. Mr. Zhao worked as the assistant to the president and the director of the Engineering Department at the Beijing Design and Consulting Branch of China Northeast Municipal Engineering Design & Research Institute from August 2009 to April 2013. Mr. Zhao served as the deputy director of the Environmental Design Institute of Beijing Architectural Engineering & Design Co., Ltd. from April 2013 to May 2014. Mr. Zhao served as the general manager of the review department of the technical center under Beijing Enterprises Water Group Limited from May 2014 to March 2017. Mr. Zhao served as the director of the North Region of Beijing Enterprises Water Group Limited from March 2017 to June 2020. Since June 2020, Mr. Zhao has served as the deputy general manager of the Tianjin-Hebei Business Region under the North Region of Beijing Enterprises Water Group Limited. Mr. Zhao has been the deputy general manager of the Company since February 2021.

4. Corporate Governance

Name	Primary working experience
Jing Wanying	Ms. Jing is now the chief accountant. She has a master degree in business administration and the qualifications of senior accountant and certified public accountant. She graduated from the faculty of accounting of the Tianjin Institute of Finance and Economics (天津財經學院) with major in certified public accountancy. Ms. Jing joined Tianjin Municipal Investment Co., Ltd. in November 2003; she served as deputy manager of finance department, manager of finance department and deputy chief accountant in TMICL from January 2006 to September 2015. Ms. Jing served as chief accountant in TMICL from September 2015 to 16 November 2021. Ms. Jing has been the chief accountant of the Company since November 2021.
Di Xiaofeng	Mr. Di is now a partner of the Commerce & Finance Law Offices in Beijing, an independent non-executive Director of the Company during the reporting period. Mr. Di received a bachelor degree of law from Peking University in 1983 and a master degree of law from the Chinese Academy of Social Sciences in 1986. From September 1986 to February 1988, he worked for the law department of the China Council for the Promotion of International Trade, specializing in legal affairs. From March 1988 to April 1992, he worked as a full-time lawyer for the China Legal Affairs Centre under the supervision of the Ministry of Justice of the PRC. Mr. Di was qualified as a solicitor in 1989. Mr. Di was the independent non-executive Director of the Company from April 2008 to April 2014 and has been the independent non-executive Director of the Company since 18 December 2018. Mr. Di resigned from the director's position of the Company in 11 November 2021.
Wang Xiangfei	Mr. Wang was an independent non-executive Director of the Company during the reporting period, the financial advisor of China Sonangol International Holding Limited, and an executive director of Nan Nan Resources Enterprise Limited. Mr. Wang is a senior accountant who graduated from Renmin University of China, majoring in finance and received a bachelor degree in economics. He also held the senior management position with several companies engaging in banking and other financial services. He was the independent non-executive director of China CITIC Bank Co., Ltd., SSEC Media Group Limited, Chongqing Iron and Steel Company Limited, and Shandong Chenming Paper Holdings Limited and an internal supervisor of Shenzhen Rural Commercial Bank Limited, and was the independent non-executive Director of the Company from April 2002 to April 2008. Mr. Wang Xiangfei has been an independent non-executive Director of the Company since 18 December 2015. Mr. Wang resigned from the director's position of the Company in 11 November 2021.

Name	Primary working experience
Tang Fusheng	<p>Mr. Tang Fusheng was the general manager of the Company during the reporting period. Mr. Tang Fusheng served as the head of the development department, the deputy general manager, and the general manager of Water Recycling Company, a wholly-owned subsidiary of the Company from July 2001 to April 2009. He served as the assistant to the general manager of the Company, and at the same time served as the chairman and general manager of Water Recycling Company from April 2009 to February 2010. He served as the deputy general manager of the Company from March 2010 to February 2015. During his tenure as the deputy general manager of the Company, Mr. Tang concurrently served as the chairman of Water Recycling Company and the general manager of the Company's energy and resources department. His role as the general manager of Water Recycling Company ceased in June 2014 as a result of work rearrangement. He has been serving as the chairman of Hong Kong Company, a wholly-owned subsidiary of the Company, since June 2011, and has been serving as an Executive Director of Jiayuanxing, a wholly-owned subsidiary of the Company, since June 2014. In February 2015, Mr. Tang resigned from all of the abovementioned positions as a result of work rearrangement and was transferred to Tianjin Urban Pipe Network Construction Investment Co., Ltd. (天津城市道路管網配套建設投資有限公司) and served as a director and general manager of that company. Mr. Tang has served as the general manager of the Company since 26 January 2017, the director of the Company from 14 March 2017 to 17 December 2018. Mr. Tang resigned from the general manager's position of the Company in February 2021.</p>
Peng Yilin	<p>Ms. Peng was the chief accountant and director of the financial management center of the Company during the reporting period. From March 2008 to September 2015, she successively acted as the assistant department head of the financing development department and the financial central manager, of Tianjin Investment Group. Ms. Peng has been the assistant general manager of the Company since 29 October 2015, the chief accountant of the Company since 29 January 2016, a Director of the Company from 16 March 2016 to 17 December 2018 and concurrently a director of TMICL since 28 December 2020. Ms. Peng resigned from the chief accountant's position of the Company in 19 November 2021.</p>

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

Notes on other information

The terms of the eighth session of the Board of the Company expired on 17 December 2021. As the nomination of the candidates of director(s) for the election of the new session of the Board of the Company and related works has not been completed, in order to ensure the continuity and stability of the Board of the Company and our operation and management, the terms of both the Board will be extended. The term for the committees of the Board and senior management of the Company will also be extended correspondingly. For details, please refer to the Company's indicative announcement on the extension of the terms of the Board and the Supervisory Committee dated 16 December 2021.

4. Corporate Governance

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

1. Positions held by the shareholder's entity

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

2. Positions held at the other entities

Name	Name of other entities	Position held in other entities	Appointment date	Termination date
Gu Wenhui	Tianjin Municipal Investment Property Investment and Development Co., Ltd.	Director	November 2016	–
	Tianjin City Investment Development and Leasing Co., Ltd.	Director	15 May 2020	–
	Aiyikang (Tianjin) Engineering Consultants Co., Ltd.	Deputy Chairman	24 April 2020	–
	Tianjin Jinghong Private Fund Management Co., Ltd.	Chairman	28 March 2021	–
Si Xiaolong	Tianjin Investment Group	General Manager of Strategic Planning Department (Board of Directors Office)	November 2021	–
	Guokong Jincheng	Director	October 2018	–
Liu Tao	Ningbo energy group Co., Ltd	Deputy Manager of the Investment Management Department (presiding work)	August 2021	–

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

2. Positions held at the other entities (Continued)

Name	Name of other entities	Position held in other entities	Appointment date	Termination date
Guo Yongqing	Shanghai National Accounting Institute	Accounting Professor	May 2002	–
	Chongqing Porton Pharmacy Science & Technology Co., Ltd.	Independent Director	22 March 2016	–
	Shanghai Electric Power Co., Ltd.	Independent Director	June 2021	–
	Yango Group Co., Ltd.	Independent Director	15 May 2020	–
	Ningbo Zhenghai Jianwu Asset Management Co., Ltd.	Director	29 December 2018	–
	Hwabao Securities Co. Ltd.	Director	9 August 2016	–
	Sanxiang Impression Co. Ltd.	Director	June 2021	–
Lu Yingying	Beijing Commerce & Finance Law Offices Shanghai Office	Solicitor	July 2004	–
Xu Zhiming	CBC	Founding Partner	March 2006	–
	Orient Securities Co. Ltd.	Independent Director	June 2016	–
	Beijing Lianhang Hezhong Media Technology Co., Ltd.	Director	November 2007	–
	Beijing Baoxuan Culture Media Co., Ltd	Director	December 2007	–
Di Xiaofeng	Commerce & Finance Law Offices in Beijing	Partner	16 May 1992	–
	Beijing Jingxi Culture and Tourism Co., Ltd.	Independent Director	27 May 2016	18 June 2021
Wang Xiangfei	Nan Nan Resources Enterprise Limited	Director	25 March 2008	–
	China Sonangol International Holding Limited	Director	23 August 2016	–
Positions held at other entities	Nil			

4. Corporate Governance

(3) REMUNERATION OF DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT

Procedures for determining the remuneration of the Directors, Supervisors, and senior management	The remuneration of the Directors and Supervisors will be determined in accordance with the remuneration standard for the Directors and Supervisors as approved at the general meetings of the Company. The remuneration of the senior management will be determined on the basis of the remuneration plan approved by the Board and the operation result of the Company, and an annual salary system and an performance pay system based on the completion of annual operating targets will be implemented. The Directors (other than the independent non-executive directors) and Supervisors of the Company do not receive remuneration for acting as directors or supervisors.
Basis for determining the remuneration of the Directors, Supervisors, and senior management	The remuneration of the Company's senior management will be distributed in accordance with their achievements in production and operation tasks and their routine management work. The performance pay will be distributed according to the achievement of annual operating targets and performance appraisal results.
Actual payment of the remuneration to the Directors, Supervisors, and senior management	The remuneration distributed by the Company to the Directors, Supervisors, and senior management is in line with the salaries and performance appraisal requirements of the Company and distributed according to the requirements.
Actual remuneration received by all Directors, Supervisors, and senior management as at the end of the reporting period (in total)	RMB12.6280 million

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

(4) CHANGES IN DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT OF THE COMPANY

Name	Position held	Changes	Reasons for changes
Di Xiaofeng	Independent non-executive Director	Resignation	Personal career development reason
Wang Xiangfei	Independent non-executive Director	Resignation	Physical reason
Liu Tao	Non-executive Director	Appointment	Elected at the general meeting of Company
Lu Yingying	Independent non-executive Director	Appointment	Elected at the general meeting of Company
Xu Zhiming	Independent non-executive Director	Appointment	Elected at the general meeting of Company
Tang Fusheng	General Manager	Resignation	Work engagement
Peng Yilin	Chief Accountant	Resignation	Work engagement
Li Yang	General Manager	Appointment	Work engagement
Zhao Mingwei	Deputy General Manager	Appointment	Work engagement
Jing Wanying	Chief Accountant	Appointment	Work engagement

(5) PUNISHMENTS IMPOSED BY SECURITIES REGULATORY AUTHORITIES IN THE LATEST THREE YEARS

Not applicable

4. Corporate Governance

IV. BOARD MEETING HELD DURING THE REPORTING PERIOD

Session	Date of meeting	Resolution
43 th meeting of the eighth session	21 January 2021	Approved: Resolution on amending the “Enterprise Annuity Plan of Tianjin Capital Environmental Protection Group Co., Ltd.”; Resolution on the company’s work on revitalizing and utilizing land and real estate resources; Resolution on the establishment of Honghu Tianchuang Environmental Protection; Resolution on reviewing the eight basic management systems of the Company; and Resolution on matters related to the first grant of the 2020 Stock Option Incentive Plan
44 th meeting of the eighth session	8 February 2021	Approved: Resolution on the resignation of Mr. Tang Fusheng as general manager of the Company; Resolution on appointment of Mr. Li Yang as the general manager of the Company; Resolution on the appointment of Mr. Zhao Mingwei as the Deputy General Manager of the Company; and Resolution on the annual appraisal of the management.
45 th meeting of the eighth session	9 March 2021	Approved: Resolution to exercise and reale corporate bonds of the Company; and Resolution on the application for M&A loans for the acquisition of Compro Company and Yonghui Company.
46 th meeting of the eighth session	25 March 2021	Approved: Resolution on the 2020 annual report for and its summary to be published both domestically and internationally. Resolution on the 2020 Annual Board Report and the 2021 annual management strategy; Resolution on the 2020 financial statements and 2021 financial budget report of the Company; Resolution on the 2020 profit distribution plan of the Company; Resolution on the 2021 annual operation plan of the Company; Resolution on the 2020 Internal Control Self-Evaluation Report of the Company; Resolution on the “2021 Internal Audit Work Plan”; Resolution on the “2020 Audit Committee Performance Report”; Resolution on the 2020 social responsibility report of the Company; Resolution on the 2020 environmental, social and governance report of the Company; Resolution on the authorization of the Board of Directors for the application for bidding of public tender projects; Resolution on application for the amount of loan line for 2021; and Resolution to increase the amount of the external guarantee of the Company.

Session	Date of meeting	Resolution
47 th meetings of the eighth session	30 March 2021	<p>Approved:</p> <p>Resolution on the adjustment of the 2020 non-public issuance of A-shares offering plan of the Company;</p> <p>Resolution on the 2020 Plan for Non-Public Issuance of A-Shares (Revised Draft) of the Company;</p> <p>Resolution on entering into a Conditionally Effective Termination Agreement between the Company and the Subscriber on The Termination of Certain Terms of the Subscription Agreement for the Introduction of Strategic Investors and the Non-Public Issuance;</p> <p>Resolution on entering into a Supplementary Agreement to the Conditionally Effective Subscription Agreement for the Introduction of Strategic Investors and Non-Public Issuance Shares between the Company and the Subscriber;</p> <p>Resolution on the Feasibility Analysis Report on the Use of Funds Raised from the 2020 Non-Public Issuance of A-Share Shares (Revised Draft);</p> <p>Resolution on the 2020 Non-Public Issuance of A-Share Shares Involving Connected Transactions (Revised Draft) of the Company;</p> <p>Resolution on the risk warning of the non-public issuance of A shares to dilute the immediate return and related preventive measures (Revised Draft) of the Company;</p> <p>Resolution on amendment of the Administration of Information Disclosure Concerning Corporate Debentures;</p> <p>Resolution on pledge financing with the right to sewage treatment service fees from four sewage treatment plants in the central district of Tianjin;</p> <p>Resolution in relation to the provision of the Company of guarantees for subsidiaries' loans and letters of guarantee; and</p> <p>Resolution on the plan for the formation of companies in the North-South region.</p>
48 th meetings of the eighth session	26 April 2021	<p>Approved:</p> <p>Resolution on the 2021 first quarterly report and its summary of the Company;</p> <p>Resolution on continuous to appoint PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as external auditors of the Company and to request the General Meeting of Shareholders to authorize such appointment and to authorize the Board of Directors to determine their remuneration;</p> <p>Resolution on suggestions of holding the 2020 Annual General Meeting; and</p> <p>Resolution on signing the Sludge Disposal Contract and the Entrusted Operation Agreement of Jinnan Sludge Disposal Plant with the relevant parties</p>

4. Corporate Governance

Session	Date of meeting	Resolution
49 th meetings of the eighth session	30 April 2021	Approved: Resolution on the establishment of Xiqing Tianchuang Company; Resolution on increasing the capital of Fuyang Company.
50 th meetings of the eighth session	25 May 2021	Approved the resolution on providing entrusted loans Hebei Guojin Company.
51 st meetings of the eighth session	17 June 2021	Approved the resolution on establishing Jingu Sewage Treatment Plant as an unincorporated branch.
52 nd meetings of the eighth session	30 June 2021	Approved the resolution on formulating the “Measures for the Administration of the Authorization of the Board of Directors of Tianjin Capital Environmental Protection Group Co., Ltd. (Provisional)”.
53 rd meetings of the eighth session	14 July 2021	Approved the resolution on the Equity Transfer Agreement of International Machinery Company.
54 th meetings of the eighth session	23 July 2021	Approved the resolution on formulating the “2021 Senior Management Performance evaluation Plan for Capital Environmental Protection Group”.
55 th meetings of the eighth session	16 August 2021	Approved the resolution on adjustment on the price for provision of cold supply services with the related parties and signing the “2020-2023 Tianjin Non-resident Residential Cold and Heat Supply Services Contract” and the “Supplementary Agreement”.
56 th meetings of the eighth session	25 August 2021	Approved: Resolution on 2021 interim report and its summary of the Company; Resolution on the changes in accounting policies of the Company; Resolution on application for filing of a listed debt financing plan; Resolution on application for registration and issuance of debt financing indicators for non-financial enterprises; Resolution to provide a guarantee for the loan of Shandong Company; and Resolution on Water Recycling Company to invest in the implementation of the recycled water pipe network connection project in the main district of Tianjin.
57 th meetings of the eighth session	3 September 2021	Approved: Resolution on extending the validity period of the Resolution on the 2020 Non-public Issuance of A Shares of the Company; Resolution to requesting the Shareholders’ Meeting to authorize the Board of Directors and its authorised persons to exercise full powers to extend the validity period of the non-public offering of shares of the Company; and Resolution on holding the second extraordinary general meeting in 2021, the first A-share class meeting in 2021 and the first H-share class meeting in 2021.

Session	Date of meeting	Resolution
58 th meetings of the eighth session	27 September 2021	Approved: Resolution on the investment in the project of Tancheng Comprehensive Materials Ecological Disposal Center of Shandong Company; Resolution on amending the “Management System for Bond Information Disclosure”; and Resolution on the separation of Tancheng Branch of Shandong Company; Resolution on increasing capital of Wendeng Company
59 th meetings of the eighth session	20 October 2021	Approved the resolution on the signing of the reclaimed water pipeline network connection project contract between Tianjin Water Recycling Company and related parties.
60 th meetings of the eighth session	22 October 2021	Approved: Resolution on the nomination of Mr. Liu Tao as a director candidate of the eighth session of the Board of Directors of the Company; Resolution on the nomination of Ms. Lu Yingying as an Independent non-executive Director candidate of the eighth session of the Board of Directors of the Company; Resolution on the nomination of Mr. Xu Zhiming as an Independent non-executive Director candidate for the eighth session of the Board of Directors of the Company; Resolution on the formation plan of companies in the Beijing-Tianjin-Hebei region; and Resolution on convening the third extraordinary general meeting of shareholders in 2021.
61 st meetings of the eighth session	25 October 2021	Approved the resolution on 2021 third quarter report of the Company.
62 nd meetings of the eighth session	19 November 2021	Approved: Resolution on the resignation of Ms. Peng Yilin as Chief Accountant and the appointment of Ms. Jing Wanying as Chief Accountant of the Company; and Resolution on the establishment of Jiayuan Kaichuang Company

4. Corporate Governance

Session	Date of meeting	Resolution
63 rd meetings of the eighth session	22 November 2021	<p>Approved:</p> <p>Resolution on the signing of the “Conditional Introduction of Strategic Investors and Non-public Issuance of Shares Subscription Agreement and Termination Agreement of Supplemental Agreement” between the Company and Yangtze Ecology;</p> <p>Resolution on entering into the Termination Agreement of the Conditional Non-public Issuance Share Subscription Agreement between the Company and Tianjin Municipal Investment Co., Ltd.;</p> <p>Resolution on the termination of the non-public issuance of A shares in 2020 of the Company and withdrawal of application documents and re-declaration of non-public issuance of shares in 2021;</p> <p>Resolution on the compliance with the conditions for non-public issuance of A shares of the Company;</p> <p>Resolution on the 2021 Non-Public Issuance of A Shares of the Company;</p> <p>Resolution on the Plan for 2021 Non-public Issuance of A Shares of the Company;</p> <p>Resolution on the feasibility analysis report on the use of funds raised by the non-public issuance of A shares of the Company;</p> <p>Resolution on the “Shareholder Return Plan for the Next Three Years (2021-2023)” of the Company;</p> <p>Resolution on the Risk Warning and Precautionary Measures in relation to the Dilution of Immediate Return from the Non-public Issuance of A Shares of the Company;</p> <p>Resolution on the controlling shareholder, indirect controlling shareholder, directors and senior management of the Company to guarantee the effective implementation of the measures to cover immediate returns of the Company;</p> <p>Resolution on requesting the general meeting of shareholders to authorize the board of directors and its authorised persons to handle matters related to the non-public issuance of shares; and</p> <p>Resolution on holding the fourth extraordinary general meeting in 2021, the second A-share class meeting in 2021 and the second H-share class meeting in 2021.</p>
64 th meetings of the eighth session	7 December 2021	<p>Approved the resolution on the deregistration of Sino Legend Industries Limited.</p>
65 th meetings of the eighth session	21 December 2021	<p>Approved:</p> <p>Resolution on formulating the “Related Matters Concerning the Tenure Assessment of Management Personnel of Capital Environmental Protection Group”; and</p> <p>Resolution on the granting of reserved stock options to incentive participants.</p>
66 th meetings of the eighth session	30 December 2021	<p>Approved:</p> <p>Resolution on providing guarantee for the loans of Jieshou Capital Water Co., Ltd.,</p> <p>Resolution on providing guarantee for the loan of Water Recycling Company;</p> <p>Resolution on the signing of the Contract Operation Agreement on Zhangguixhuang Water Recycling Plant and its Supporting Water Pipe-network Assets between Water Recycling Company; and related parties; and</p> <p>Resolution on the signing of the Purchase Agreement on Buried Pipe for Superficial Geothermal Energy regarding the Houal Project between related parties.</p>

V. PERFORMANCE OF DUTIES BY DIRECTORS

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

Name of director	Independent non-executive directors	Attendance at the Board meetings					Not attend in person for 2 consecutive meetings	Attendance at the general meetings
		Number of Board meetings required to attend during the year	Number of attendance in person	Number of attendance in person	Number of attendance by proxy	Number of absences		Number of attendance at the general meetings
Liu Yujun	No	24	24	19	0	0	No	5
Wang Jing	No	24	24	19	0	0	No	5
Niu Bo	No	24	24	19	0	0	No	5
Gu Wenhui	No	24	23	19	1	0	No	5
Si Xiaolong	No	24	24	19	0	0	No	5
Liu Tao	No	5	5	5	0	0	No	1
Guo Yongqing	Yes	24	24	24	0	0	No	5
Wang Xiangfei	Yes	19	19	19	0	0	No	4
Di Xiaofeng	Yes	19	19	19	0	0	No	4
Lu Yingying	Yes	5	5	5	0	0	No	1
Xu Zhiming	Yes	5	5	5	0	0	No	1

Explanation on not attend in person for 2 consecutive meetings

Not applicable

Number of Board meetings convened during the year	24
Among all: number of meetings held on site	0
Number of meetings held through communication	19
Number of meeting held on site combined with communication	5

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

Not applicable

4. Corporate Governance

VI. THE ESTABLISHMENT OF SPECIAL COMMITTEES UNDER THE BOARD OF DIRECTORS

(1). Special committee under the Board

Categories	Name of members
Audit Committee	Guo Yongqing, Lu Yingying, Xu Zhiming
Nomination Committee	Lu Yingying, Liu Yujun, Wang Jing, Guo Yongqing, Xu Zhiming
Remuneration and Assessment Committee	Xu Zhiming, Guo Yongqing, Lu Yingying
Strategy Committee	Liu Yujun, Wang Jing, Gu Wenhui, Guo Yongqing

(2). 7 meetings of the Audit Committee held during the reporting period

Date of meeting	Minutes of the meeting	Major opinions and recommendations	Other performance of duties
29 January 2021	<ol style="list-style-type: none"> (1) Discuss the unaudited 2020 financial indicators of the Company. (2) Discuss the External Auditors' 2020 Final Audit Work Plan; and (3) Discuss the Company's Annual Report Work Plan for 2020. 	The Audit Committee approved with the As of the End of 2020 Audit Plan of the external auditor and the 2020 Annual Report Plan.	Nil
9 March 2021	<ol style="list-style-type: none"> (1) The Audit Committee communicates with the external auditor and the chief accountant on important audit matters of the year; (2) Independent non-executive directors communicate with external auditors individually; and (3) The internal auditor of the Company reports on the Company's internal audit work in 2020. 	The Audit Committee recommended that the management of the Company follow up on important audit matters and communicate with the auditors, and approved to the development of internal audit work.	Nil
25 March 2021	<p>Matters to approve</p> <ol style="list-style-type: none"> (1) The company's 2020 annual report and its summary; (2) The Company's self-evaluation report on internal control for 2020. (3) A proposal to approve the Internal Audit Work Plan for 2021; and (4) The Company's 2020 Audit Committee Performance Report. 	All members of the Audit Committee approved and agreed to submit the proposal to the Board of Directors of the Company for approval.	Nil
26 April 2021	Approve the 2021 First Quarterly Report of the Company and summary.	All members of the Audit Committee approved the 2021 First Quarterly Report of the Company and its summary and agreed to submit to the Board of the Company for approval.	Nil

Date of meeting	Minutes of the meeting	Major opinions and recommendations	Other performance of duties
5 August 2021	(1) The Chief Accountant reported the Company's key financial data and related statement matters for the first half of 2021; and (2) The internal auditor reported the rectification of the issues described in the 2020 Management Recommendation.	The Audit Committee approved the content of the report.	Nil
25 August 2021	(1) Approve the fill text and summary of the 2021 interim report of the Company; (2) Approve the proposal of the changes in the Company's accounting policies; (3) The internal auditor reported the internal audit works for the first half of 2021 of the Company; and (4) The external auditor reported the 2021 Audit Work Plan to the Audit Committee.	1. Approved the 2021 interim report of the Company and its summary and agreed to submit to the Board for approval; 2. Approved the changes in accounting policies; 3. Approved the reports on the internal control work of the Company for the first half of year; 4. Approved the audit work plan for 2021 by the external auditors; 5. Recommended to consider the goodwill arising from the two hazardous waste companies which were newly acquired as a key audit matter, so as to facilitate the future business expansion of the Company.	Nil
25 October 2021	Approve the 2021 Third Quarterly Report of the Company.	Approved the 2021 Third Quarterly Report of the Company and agreed to submit to the Board of the Company for approval.	Nil

4. Corporate Governance

(3). 3 meetings of the Nomination Committee held during the reporting period

Date of meeting	Minutes of the meeting	Major opinions and recommendations	Other performance of duties
8 February 2021	<ol style="list-style-type: none"> 1. Nominate Mr. Li Yang as the general manager of the Company; and 2. Nominate Mr. Zhao Mingwei as the deputy general manager of the Company. 	The Committee approved to propose to the Board about the appointment of Mr. Li Yang as the general manager of the Company and Mr. Zhao Mingwei as the deputy general manager of the Company.	Nil
22 October 2021	Nominate Mr. Liu Tao, Ms. Lu Yingying and Mr. Xu Zhiming as the candidates of directors of the eighth session of the Board of the Company	The Nomination Committee of the Board was of the view that three nominees (including Mr. Liu Tao) met the conditions as candidates of directors of the Board, thus approved such proposal and agree to submit to the Board of the Company for approval.	Nil
19 November 2021	Nominate Ms. Jing Wanying as the chief accountant of the Company.	The Nomination Committee of the Board was of the view that Ms. Jing Wanying met the employment condition of the Company's chief accountant, thus approved such proposal and agree to submit to the Board of the Company for approval.	Nil

(4). 5 meetings of the Nomination Committee held during the reporting period held during the reporting period

Date of meeting	Minutes of the meeting	Major opinions and recommendations	Other performance of duties
8 February 2021	<ol style="list-style-type: none"> 1. Approve the remuneration of new general manager and deputy general manager; and 2. Approve the appraisals of operation personnel for 2020 of the Company. 	<ol style="list-style-type: none"> 1. The Remuneration and Assessment Committee agreed the remuneration and appraisals of Mr. Li Yang, the proposed new general manager, and Mr. Zhao Mingwei, the deputy general manager will follow the prevailing remuneration and appraisal standards and mechanism for professional managers and the execution of certain agreements with the Company, such as the labour contract, employment contract and accountability statements on operation results during office, so as to clarify the tenure target, responsibilities and authorities, remuneration standard, appraisal methods and reward and punishment measures; and 2. Agreed the performance appraisal of operation personnel and board secretary, the appraisal results and its application, and agreed to submit to the Board for appraisal. 	Nil

Date of meeting	Minutes of the meeting	Major opinions and recommendations	Other performance of duties
25 March 2021	Approve the achievement of key performance indicators and appraisals on business results for 2020 of the Company.	The Committee agreed with the appraisal results of operation personnel by the Company, and approved to submit the achievement of operation indicators and appraisal results of operation personnel to the Board for approval.	Nil
23 July 2021	Formulate the Measures for Senior Management Performance Assessment for 2021 of Capital Environmental Protection Group.	The Remuneration and Assessment Committee approved the Senior Management Performance Assessment and Targets Responsibility Letter for 2021, and approved to submit the Measures for Senior Management Performance Assessment for 2021 to the Board for approval.	Nil
22 October 2021	Approve the remuneration of directors' candidates.	If the shareholders' meeting elected Mr. Liu Tao as a Director of the eighth session of the Board of the Company and elected Ms. Lu Yingying and Mr. Xu Zhiming as independent non-executive directors of the eighth session of the Board of the Company, the Remuneration and Assessment Committee of the Board recommended their emoluments will follow the Company's remuneration standard of directors of the eighth session of the Board, and approved to submit such proposal to the Board of the Company for approval.	Nil
19 November 2021	Approve the remuneration of Ms. Jing Wanying (景婉莹), our chief accountant.	The Remuneration and Assessment Committee recommended the appraisal of her performance and payment of her remuneration will follow the remuneration and appraisal standards for senior management officers of the Company.	Nil

(5). Disclosure on events involving objections

Not applicable

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

Not applicable

4. Corporate Governance

VIII. EMPLOYEES OF THE PARENT COMPANY AND MAJOR SUBSIDIARIES AT THE END OF THE REPORTING PERIOD

(1) Employees

Number of on-duty employees of the Company	469
Number of on-duty employees of major subsidiaries	1,831
Total number of on-duty employees	2,300
Number of retired employees to whom the Company and its major subsidiaries are required to pay charges	0

Composition by profession

Category of profession	Number
Production	1,188
Sales	94
Technical	520
Finance	122
Administration	203
Corporate management	173
Total	2,300

Education

Category of education	Number (person)
Doctor	4
Master	123
Undergraduate	1,136
Tertiary	634
Secondary	156
Below secondary	247
Total	2,300

(2) Remuneration policy

In 2021, the Company established remuneration management and income distribution system focusing on performance based on the requirements of three system reforms of state-owned enterprises, Based on the remuneration management system for management members and remuneration management system for employees. The remuneration of the management is composed of basic annual salary, annual performance-related pay and tenure incentive; and the remuneration of the employee is composed of basic salary, performance-based salary, benefits and other remuneration. The performance-based annual pay and performance-based salary are provided and distributed based on the completion of the annual targets.

(3) Training programs

In 2021, the Company implemented an independent training policy under the control of training funds. With the principle of “strategy-prioritized, forward-looking, urgency first and pragmatic”, the Company formulated annual training plan, and determined the main contents from three aspects, including quality improvement, mandatory training and self-improvement, so as to ensure that the training courses are target-oriented and effective and the employees will grow with the enterprise.

(4) Subcontracting labor

Not applicable

IX. PROPOSAL ON PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND

(1). Formulation, Execution, or Adjustment of Cash Dividend Policy

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

1. *Basic principles for profit distribution of the Company:*

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

IX. PROPOSAL ON PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND (Continued)

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

2. *Dividend distribution policies of the Company:*

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

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

IX. PROPOSAL ON PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND (Continued)

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

2. *Dividend distribution policies of the Company:* (Continued)

(4) Proportion of cash dividends:

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

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

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

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

IX. PROPOSAL ON PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND (Continued)

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

2. *Dividend distribution policies of the Company:* (Continued)

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

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

- (1) Formulation of profit distribution policy

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

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

IX. PROPOSAL ON PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND (Continued)

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

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

(1) Formulation of profit distribution policy (Continued)

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

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

(2) Formulation of specific proposal of profit distribution

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

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

4. Corporate Governance

IX. PROPOSAL ON PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND (Continued)

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

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

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

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

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

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

4. *Adjustment to profit distribution policy:*

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

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

IX. PROPOSAL ON PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND (Continued)

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

4. *Adjustment to profit distribution policy* :(Continued)

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

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

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

5. *Disclosures in regular reports:*

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

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

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

4. Corporate Governance

IX. PROPOSAL ON PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND (Continued)

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

6. *Supervision on profit distribution by the supervisory committee:*

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

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

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

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

(2). Description of Cash Dividend Policy

Whether it is in compliance with the provisions of this Articles of Association or requirements of the resolutions of the general meeting	Yes
Whether the criteria and proportion of dividend distribution is specific and clear	Yes
Whether the relevant decision-making procedures and mechanism are complete	Yes
Whether independent non-executive directors duly perform their duties and play their due roles	Yes
Whether medium and small shareholders have opportunities to fully express their opinions and requests, the legitimate interests and interests of medium and small shareholders are fully protected	Yes

IX. PROPOSAL ON PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND (Continued)

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

Unit: 0'000 Currency: RMB

Year of dividends	Number of bonus shares per 10 shares (shares)	Amount of dividends distributed per 10 shares (Yuan) (inclusive of tax)	Number of shares transferred per 10 shares (shares)	Amount of cash dividends (inclusive of tax)	Net profit attributable to the ordinary shareholders of the Company in the consolidated financial statements for the year	Percentage of the net profit attributable to the ordinary shareholders of the Company in the consolidated financial statements (%)
2021 (Note 1)	0	1.46	0	20,834	69,318.9	30.06
2020	0	1.20	0	17,127	57,003.9	30.04
2019	0	1.07	0	15,271	50,710.7	30.11

Note 1: This distribution plan is subject to the approval of the annual general meeting for 2021.

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

Not applicable

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

Matters related to the 2020 A share option incentive scheme (“Share Option Incentive Scheme”) were considered and approved by the shareholders of the Company at 38th meeting of the 8th Board of the Company held on 27 November 2020 and the 2020 second extraordinary general meeting, 2020 second A shareholder’s class meeting and 2020 second H shareholder’s class meeting of the Company held on 23 December 2020.

On 21 January 2021, the grant conditions under the Share Option Incentive Scheme were met. The Board approved the grant of an aggregate of 12,170,000 share options (the “First Grant”) to 155 participants (the “Participants”) who have fulfilled the grant conditions pursuant to the authorization by the Shareholders. The closing price of the A shares of the Company immediately before the date of the First Grant is RMB6.28 per A share. On 29 January 2021, the Company completed the registration for the First Grant under the Share Option Incentive Scheme.

4. Corporate Governance

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

On 21 December 2021, the reserved grant conditions under the Share Option Incentive Scheme were fulfilled. The Board approved the grant of an aggregate of 1,348,000 share options (the “Reserved Grant”) to 17 participants who have fulfilled the grant conditions pursuant to the authorization by the Shareholders. The closing price of the A shares of the Company immediately before the date of the Reserved Grant is RMB6.96 per A share. On 24 January 2022, the Company completed the registration for the Reserved Grant under the Share Option Incentive Scheme.

For details of the above Share Option Incentive Scheme, please refer to the relevant announcements and overseas regulatory announcements published on the website of Stock Exchange on 27 November 2020, 23 December 2020, 21 January 2021 and 29 January 2021, 21 December 2021 and 25 January 2022, and the relevant circular published on the website of the Stock Exchange on 8 December 2020.

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

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

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

As at the end of the reporting period, there are no more than 172 Participants for the Share Option Incentive Scheme, including the directors, senior management (excluding the independent non-executive directors, external Directors and supervisors), other members of the leadership team and core technology, management, business and skill backbones of the Company.

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

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

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

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

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

The distribution details of the Reserved Share Options among each of the Participants as at the end of the reporting period are set out in the following table:

Name	Title	Number of share options granted (In 10,000 options)	Percentage to the total number of share options granted under the Share Option Incentive Scheme	Percentage to the total share capital as at the end of reporting period
Zhao Mingwei (趙銘偉)	Deputy General Manager	25.00	1.75%	0.0175%
Jing Wanying (景婉瑩)	Chief Accountant	25.00	1.75%	0.0175%
Middle management and core backbone employees (15 persons)		84.80	5.94%	0.0594%

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

4. Corporate Governance

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

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

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

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

(4) Maximum number granted for each participant

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

(5) Vesting Period

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

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

(6) Exercise Period and Exercise Date

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

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

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

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

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

4. Corporate Governance

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

(6) Exercise Period and Exercise Date (Continued)

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

(7) The Exercise Price and Determination Method

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

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

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

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

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

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

(8) Validity Period

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

(9) Value and Relevant Accounting Policies of Share Options

1. Value of Share Options

As disclosed in the Company's announcement dated 27 November 2020 and circular dated 8 December 2020, the Company uses Black-Scholes Model (B-S Model) to calculate the fair value of the share options to be granted, and it is predicted that the value of each share option of the Company is RMB2.11 and the total value of share options granted are RMB30,109,700 by using this model. The valuation results of share options here are not used as the basis for accounting treatment. The fair value of share options used to calculate accounting costs will be re-estimated after the actual completion of the grant by collecting real-time market data at the date of grant. Relevant valuation inputs and results are set out in the below table:

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

4. Corporate Governance

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

(9) Value and Relevant Accounting Policies of Share Options (Continued)

1. Value of Share Options (Continued)

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

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

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

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

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

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

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

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

Unit: Shares Currency: RMB

Name	Position held	Number of share options held at the beginning of the year	Number of new share options granted during the reporting period	Exercisable shares during the reporting period	Share options exercised during the reporting period	Exercise Price of share options (RMB)	Number of share options held at the end of the period	Market price at the end of the reporting period (RMB)
Liu Yujun (劉玉軍)	Executive Director, Chairman	0	30.00	0	0	6.98	30.00	7.07
Li Yang (李楊)	General Manager	0	25.00	0	0	6.98	25.00	7.07
Wang Jing (王靜)	Executive Director	0	25.00	0	0	6.98	25.00	7.07
Zhao Yi (趙毅)	Deputy General Manager	0	25.00	0	0	6.98	25.00	7.07
Zhang Jian (張健)	Deputy General Manager	0	25.00	0	0	6.98	25.00	7.07
Li Jinhe (李金河)	Deputy General Manager, Chief engineer	0	25.00	0	0	6.98	25.00	7.07
Niu Bo (牛波)	Executive Director, Secretary of the Board	0	18.00	0	0	6.98	18.00	7.07
Zhao Mingwei (趙銘偉)	Deputy General Manager	0	25.00	0	0	6.98	25.00	7.07
Jing Wanying (景婉瑩)	Chief Accountant	0	25.00	0	0	6.98	25.00	7.07
Total	/	0	223.00	0	0	/	223.00	/

(11) Establishment and implementation of the assessment mechanism and incentive system for senior management during the reporting period

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

4. Corporate Governance

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

(11) Establishment and implementation of the assessment mechanism and incentive system for senior management during the reporting period (Continued)

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

Name	Contribution to pension schemes (RMB)
Liu Yujun (劉玉軍)	63,380.64
Li Yang (李楊)	63,380.64
Wang Jing (王靜)	63,380.64
Zhao Yi (趙毅)	63,380.64
Li Jinhe (李金河)	63,380.64

XI. CONSTRUCTION AND IMPLEMENTATION OF INTERNAL CONTROL SYSTEM DURING THE REPORTING PERIOD

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

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

During the reporting period, the Board of the Company shall review the internal control monitoring system, and disclose the 2021 Annual Self Evaluation Report on Internal Control on the website of the Shanghai Stock Exchange on 25 March 2022.

Descriptions of Material Defects Relating Internal Control during the Reporting Period

Not applicable

XII. MANAGEMENT CONTROL OVER SUBSIDIARIES DURING THE REPORTING PERIOD

As of the end of the reporting period, the Group had 53 subsidiaries, which were distributed in 15 provinces, municipalities and autonomous region. In order to achieve effective management and control over subsidiaries, the Group has established a management level between the headquarters and subsidiaries, representing the establishment of three large regional companies. The regional companies were authorised to implement comprehensive management of their subsidiaries within their jurisdictions. The Group formulated various business management systems and principles, and the regional companies implemented daily business management of subsidiaries under the principles set by the group company. Meanwhile, the Group paid attention to the improvement of the corporate governance structure of subsidiaries, enhanced the construction of the board of directors, strengthened the selection of directors and operation personnel and their performance management, so as to improve the governance level of subsidiaries. By continuously promoting the effective integration of the above two management mechanisms, the Group could gradually improve the effective management and control of subsidiaries. The Group's headquarters supervised the overall operation of subsidiaries and regional companies through special inspections and "five-in-one" inspections every year.

During the reporting period, the Group acquired the entire equity interests in two hazardous waste project companies, namely Compro Company and Yonghui Company (the "Target Companies"). Given that the Group has mature experience in the management and operation of hazardous waste business, there would no major obstacles in relation to the continuous operation as well as the effective management and control of the two companies after the completion of the acquisition:

- (1) For business management, the two companies were incorporated into the large operation management system of the Company, and implemented planning, statistics, assessment, quality and safety management;
- (2) For corporate governance, in order to reshape the board of directors and management, the Company dispatched senior management personnel such as directors, supervisors and financial leaders to control the operation and development of the Target Companies;
- (3) For authorization management, the Target Companies were included in the southern regional companies according to the group management and control structure of the Group, and they were comprehensively managed by the southern regional companies;
- (4) For the construction of internal control system, the Target Companies have gradually established a corresponding internal control system according to the requirements of internal control system of the Group.

4. Corporate Governance

XIII. EXPLANATION IN RESPECT OF THE INTERNAL CONTROL AUDIT REPORT

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

For details of the internal control audit report, please refer to the “2021 Internal Control Audit Report” disclosed on the website of the SSE on 25 March 2022.

XIV. RECTIFICATIONS OF SELF-EXAMINATION ON CORPORATE GOVERNANCE FOR LISTED COMPANIES

Not applicable

5. Environment and Social Responsibility

I. ENVIRONMENT INFORMATION

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

1. *Pollutant Discharging*

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

As at the end of the reporting period, the Company owned 47 sewage treatment projects, each of which has 1 or 2 effluent outfall(s) confirmed by competent industry authorities and experts upon examination and verification. According to the relevant agreements, currently the effluent water quality carried out by most sewage treatment plants is first-grade A under the Pollutant Discharge Standards for Urban Wastewater Treatment Plants (GB18918-2002), and the other sewage treatment plants implement the local standard or agreement standard. The common pollutant indexes requiring basic control include COD, BOD, SS, total nitrogen, ammonia nitrogen, total phosphorus, etc. The following table sets out the maximum allowable discharge concentrations (daily average) of the pollutant indices requiring national standard first-grade A.

5. Environment and Social Responsibility

I. ENVIRONMENT INFORMATION (Continued)

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

1. *Pollutant Discharging* (Continued)

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

During the reporting period, the discharge concentrations of the major pollutant indexes requiring basic control of the Company's sewage treatment business were all below the above standards. In aggregate, the COD, total nitrogen, ammonia nitrogen, and total phosphorus discharged by the Company during the reporting period were approximately 25,500 tonnes, 1.25 tonnes, 781 tonnes and 252 tonnes, respectively. In aggregate, environmental pollutants, namely, the COD, total nitrogen, ammonia nitrogen, and total phosphorus, were eliminated by approximately 455,700 tonnes, 54,500 tonnes, 50,800 tonnes, and 6,400 tonnes, respectively, representing a significant contribution to water environmental governance.

2. *Construction and operation of pollution prevention facilities*

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

I. ENVIRONMENT INFORMATION (Continued)

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

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

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

4. *Emergency Plans for Sudden Environmental Incidents*

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

5. *Environmental Self-monitoring Program*

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

6. *Administrative penalties due to environmental issues during the reporting period*

Not applicable

5. Environment and Social Responsibility

I. ENVIRONMENT INFORMATION (Continued)

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

7. *Other environmental information that should be disclosed*

Not applicable

- (2) Description of environmental information of companies other than those classified as key pollutant discharge entities

Not applicable

- (3) Relevant information that is conducive to protecting ecology, preventing pollution, and fulfilling environmental responsibilities

In aggregate, environmental pollutants, namely, the COD, total nitrogen, ammonia nitrogen and total phosphorus, were eliminated by approximately 455,700 tonnes, 54,500 tonnes, 50,800 tonnes, 6,400 tonnes in terms of the Company's sewage treatment business during the reporting period, respectively, representing a significant contribution to water environmental governance.

- (4) Measures and effects taken to reduce carbon emissions during the reporting period

During the reporting period, the Company's new energy cooling and heating supply business and distributed photovoltaic power generation project had certain effects on and made contributions to reducing carbon emissions.

II. SOCIAL RESPONSIBILITY WORK

The Company has disclosed its social responsibility report. For details, please refer to the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) on 25 March 2022.

III. CONSOLIDATE AND EXPAND THE RESULTS OF POVERTY ALLEVIATION, RURAL REVITALIZATION AND OTHER SPECIFIC WORK

Not applicable

I. PERFORMANCE OF COMMITMENT

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

Not applicable

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

Not applicable

II. CONTROLLING SHAREHOLDER OF THE COMPANY AND ITS CONNECTED PARTIES MISAPPROPRIATE THE COMPANY'S FUNDS FOR NON-OPERATING PURPOSES FOR DURING THE REPORTING PERIOD

Not applicable

III. GUARANTEES IN VIOLATION

Not applicable

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

Not applicable

6. Major Events

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

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

The Ministry of Finance promulgated on the “Notice on Issuing the Interpretation No. 14 of Accounting Standards for Business Enterprises” (Finance and accounting [2021] No. 1) (“**Interpretation No. 14**”). The Group adjusts the amount of items related to the financial statements at the beginning of 2021 for the cumulative impact of the first implementation of the Interpretation of the Standard in accordance with the relevant provisions of Interpretation No. 14 on the Accounting Treatment of Private Parties for Public-Private Partnership (PPP) Project Contracts. The comparative financial statements for FY2020 are not renumbered (increase/(decrease)). Retained earnings at the beginning of 2021 has no impact on the presentation of the financial statements of the group and the company.

- (2) **Analysis and Explanation of the Company on the Reasons and Effects of Correction of Material Accounting Errors**

Not applicable

- (3) **Communication with the Former Accounting Firm**

Not applicable

- (4) **Other Explanations**

Not applicable

VI. APPOINTMENT, REMOVAL AND CESSATION OF RE-APPOINTMENT OF ACCOUNTING FIRMS

Unit: 0'000 Currency: RMB

Name of the accounting firm	Present Appointment PricewaterhouseCoopers Zhong Tian LLP
Remuneration of the accounting firm	310
Service years of the accounting firm	27 years

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

Explanations on the Appointment, Removal and Cessation of Re-appointment of Accounting Firms

The Company held the 2020 annual general meeting on 27 May 2021, at which it has considered and approved the joint provision of auditing services to the Company for the financial year 2021 by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, among which PricewaterhouseCoopers provided international auditing services. However, given that the Company aligned the preparation of its financial statements in accordance with China Accounting Standards for Business Enterprises and PricewaterhouseCoopers Zhong Tian LLP is a firm of practicing accountants which has been approved by the MOF and the CSRC and eligible to provide auditing services by using the Standards for Chinese Certified Public Accountants to the Mainland China incorporated issuers listed in Hong Kong, the Company has only appointed PricewaterhouseCoopers Zhong Tian LLP as the Company's auditor for the financial year 2021 to undertake other responsibilities of domestic and international auditors which are required by the Listing Rules.

The directors (including independent non-executive directors) and the supervisors of the Company are of the view that, the alignment in preparation of financial statements in accordance with China Accounting Standards for Business Enterprises is in favor of the Company to improve working efficiency, lower disclosure costs, and in compliance with the relevant laws and regulations; and there is no damage to the interests of the Shareholders. Therefore, the directors and the supervisors of the Company have agreed that the Company should prepare all of its financial statements in accordance with the China Accounting Standards for Business Enterprises in future, and cease to re-appoint its international auditor.

PricewaterhouseCoopers have provided a confirmation that there are no matters regarding the cessation of re-appointment of international auditor that need to be brought to the attention of shareholders of the Company. There is no disagreement between the Company and PricewaterhouseCoopers regarding the cessation of its re-appointment.

6. Major Events

The appointment of PricewaterhouseCoopers Zhong Tian LLP had been considered and approved at the 70th meeting of the eighth session of the Board of the Company, among which the proposed re-appointment of PricewaterhouseCoopers Zhong Tian LLP to provide the Company with auditing services for the 2022 financial report in compliance with the China Accounting Standards for Business Enterprises and the internal control audit services for 2022 and to undertake other responsibilities of international auditor which are required by the Rules Governing the Listing of Securities on the Stock Exchange as well is subject to the Shareholders' approval at the upcoming annual general meeting of the Company. A proposal will also be made to the annual general meeting to authorize the Board to determine the remuneration of the Company's auditor.

For details of the above cessation of re-appointment of international auditor, please refer to the relevant announcements published on the website of Stock Exchange on 25 April 2022.

VII. RISK OF DELISTING

(1) Causes of Delisting

Not applicable

(2) Measures to be taken by the Company

Not applicable

(3) Situation and reasons for termination of Listing

Not applicable

VIII. MATTERS RELATING TO BANKRUPTCY AND RESTRUCTURING

Not applicable

IX. MATTERS RELATING TO MATERIAL LITIGATION AND ARBITRATION

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

Not applicable

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

Unit: Yuan Currency: RMB

During the reporting period:

Plaintiff (Applicant)	Defendant (Respondent)	Party to bear joint liability	Type of litigation or arbitration	Particulars of litigation (or arbitration)	Amount involved in litigation (arbitration) (RMB)	Any estimated liabilities incurred in litigation (arbitration) and the amount	Progress of litigation (or arbitration)	Ruling results of litigation (or arbitration) and its effect	Enforcement of award of litigation (or arbitration)
Jiayuanxing	Qudong Company	No	Litigation	Note 1	12,030,003	No	Note 1	Note 1	Concluded

Note 1: From 2012 to 2016, Jiayuan Company and Qudong Company signed the "Tianjin Non-residential Building Cold Supply Contract (《天津市非居民住宅供用冷合同》)" and "Tianjin Non-residential Buildings Heat Supply Contract (《天津市非居民住宅供用热合同》)", stipulating that Jiayuan Company would provide cold and heat supply services to the Tianjin Cultural Center Grand Theatre* (天津文化中心大劇院), which was operated and managed by Qudong Company. Qudong Company did not pay cold and heat supply energy fees to Jiayuan Company on time and in full according to the contract. In order to safeguard the lawful rights and interests of Jiayuan Company, on 3 November 2017, Jiayuan Company filed a civil lawsuit with the Hexi Court. On 3 April 2018, the Hexi Court made a first-instance judgment, ruling that Qudong Company to pay Jiayuan Company cold and heat supply energy fees of RMB12,030,003 from 2012 to 2016 within ten days from the effective date of the first-instance judgment; case acceptance fees and preservation fees totaling RMB98,980 were borne by Qudong Company. Both parties refused to accept the first-instance judgment and appealed to the Tianjin Second Intermediate People's Court. On 25 September 2018, the Tianjin Second Intermediate People's Court made the final judgment, ruling to reject the appeal applications of both parties and maintain the original judgment. As of the end of 2019, Qudong Company has returned RMB7.4013 million.

6. Major Events

Qudong Company has applied for bankruptcy on March 2021. On 23 July 2021, Heping Court, the court that accepted the bankruptcy case of Qudong Company, had convened and held a creditors' meeting. During the creditors' meeting, Jiayuan Company has raised relevant objections. On 6 January 2022, Heping Court had made a decision that as of 30 September 2020, the total assets of Qudong Company amounted to RMB313,109.22 (audited) while its total liabilities amounted to RMB23,983,215.8 (audited). Since Qudong Company was unable to settle its debts due and its assets are insufficient to settle its debts and it was impossible for Qudong Company to carry out restructuring or reach settlement, thus Qudong Company was declared bankrupt.

(3). Other explanations

Not applicable

X. VIOLATIONS OF REGULATIONS, PUNISHMENTS AND RECTIFICATION OF THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, ULTIMATE CONTROLLERS, AND PURCHASERS

Not applicable

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

Not applicable

XII. MATERIAL CONNECTED TRANSACTIONS

(1) Connected Transactions in the Ordinary Course of Business

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

- a. On 26 April 2021, the Company entered into the Sludge Disposal Contract with Tianjin Investment Group, entrusted Jinnan Sludge Disposal Plant held by Tianjin Investment Group to carry out sludge disposal, for a service period from 26 April 2021 to 25 April 2022. The sludge disposal fee is RMB370 per tonne. The Company expects that the total amount of the Sludge Disposal Fee to be paid to Tianjin Investment Group during the Service Period will not exceed RMB97,236,000.

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

- b. On 26 April 2021, Tianjin Investment Group, Caring Company and the Company entered into the Entrusted Operation Agreement, pursuant to which, Caring Company to operate and maintain all assets of Jinnan Sludge Disposal Plant for Tianjin Investment Group, for a service period from 26 April 2021 to 25 April 2022. The entrusted operation service fee is RMB249 per tonne, which is payable by Tianjin Investment Group to Caring Company based on the actual amount of sludge treated. The Company expects that the total amount of the Entrusted Operation Service Fee to be paid to Caring Company by Tianjin Investment Group during the Service Period will not exceed RMB65,400,000.

Connected relationship: Caring Company is a non-wholly-owned subsidiary of the Company. Tianjin Investment Group is the ultimate controlling company of the Company.

- c. On 25 May 2021, the Board considered and approved the Entrusted Loan in an aggregate amount of up to RMB20,000,000 to be provided by the Company (as principal) to HBGJTC (as borrower) through Agricultural Bank of China (as trustee) pursuant to the Entrusted Loan Agreement for a term of one year, which will be funded by the Company.

Connected Transactions: HBGJTC is a non-wholly owned subsidiary of the Company. Tianjin Investment Group, the ultimate controlling company of the Company, holds 40% equity interest in Hebei Guokong, which in turn holds 30% equity interest in HBGJTC.

6. Major Events

XII. MATERIAL CONNECTED TRANSACTIONS (Continued)

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

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

- d. On 16 August 2021, Jiayuanxing entered into the Supplementary Agreement with TLP, pursuant to which Jiayuanxing agreed to, confirm and ratify the heat supply services provided by Jiayuanxing for Tianjin MIXc of TLP during the Heat Supply Services Period in 2020 (i.e. from 15 November 2020 to 17 December 2020). The unit price of services is RMB40 per m², the chargeable area of heat supply services were 276,273.6 m² (from 15 November 2020 to 17 December 2020), 350,645 m² (from 18 December 2020 to 24 January 2021) and 363,042 m² (from 25 January 2021 to 15 March 2021), respectively. The total fees for the Heat Supply Services in 2020 is RMB13,445,710.04.
- e. On 16 August 2021, Jiayuanxing entered into the TLP Cold and Heat Supply Agreements from 2021 to 2023 with TLP. Jiayuanxing shall provide cold supply services at the Tianjin MIXc of TLP. The Cold Supply Services Period from 16 August 2021 to 30 September 2021, 1 June 2022 to 30 September 2022 the unit price is RMB64.59 per m², services area is 273,486.6 m², the service fees for the cold supply services shall be RMB17,664,499.49.

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

- f. On 3 September 2021, Water Recycling Company entered into an Engineering Consultation Service Agreement with Tianjin Infrastructure Consultant, to engage Tianjin Infrastructure Consultant to provide engineering consultation services in respect of the recycled water pipeline network connection project in the main district of Tianjin Project (First Batch) throughout the Engineering Consultation Service Period. The service period is scheduled to be three years from 3 September 2021 to the completion of the final accounts and completion of all engineering projects of the Project. The total service fee of the Project is calculated by multiplying the sum of the individual service fees for the entrusted (i) project entrusted construction services, (ii) cost consultation services and (iii) engineering consultation services by 0.8 (i.e. the fee preferential rate of the Engineering Consultation Service Agreement) and to be settled in accordance with the fees actually incurred. The Company expects that the aggregate amount of such engineering consultation service fee payable by Water Recycling Company to Tianjin Infrastructure Consultant will not exceed RMB10.02 million.

Connected relationship: Water Recycling Company is a direct wholly-owned subsidiary of the Company. Tianjin Infrastructure Consultant is an indirect wholly-owned subsidiary of the Tianjin Investment Group, a ultimate controlling company of the Company.

XII. MATERIAL CONNECTED TRANSACTIONS (Continued)

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

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

- g. On 20 October 2021, Water Recycling Company entered into a Construction Agreement with Tianjin Municipal Institute (an independent third party of the Company) and Tianjin Tongsheng Municipal, to engage Tianjin Municipal Institute and Tianjin Tongsheng Municipal to provide general contracting services for Water Recycling Company in terms of design, construction and procurement for the first section of the recycled water pipeline network connection project in the main district of Tianjin Project (First Batch). The service period is scheduled to commence from 20 October 2021 and end on the date of the completion of construction (expected to be 31 May 2022). The service fee under the Construction Agreement is RMB9,413,215 (tax inclusive), including design fee to be paid to Tianjin Municipal Institute of RMB46,500 and construction and installation engineering fee to be paid to Tianjin Tongsheng Municipal, (procurement part inclusive) of RMB9,366,715.

Connected relationship: Water Recycling Company is a direct wholly-owned subsidiary of the Company. Tianjin Tongsheng Municipal is an indirect non-wholly owned subsidiary of Tianjin Investment Group, a ultimate controlling company of the Company.

- h. On 30 December 2021, the Board considered and approved the resolution in relation to the entering into of the Purchase Agreement on buried pipe for superficial geothermal energy regarding the Houtai Project between Jiayuan Kaichuang Company and Tianjin Environmental Investment, pursuant to which Jiayuan Kaichuang Company has agreed to pay to Tianjin Environmental Investment the related investment and financial cost according to the bidding documents regarding the licensed operation of the Houtai Project within three months after winning the bidding, and Tianjin Environmental Investment has agreed to transfer the property right of the indoor buried pipes of the Houtai Project to Jiayuan Kaichuang Company. The Company expects that the fee payable by Jiayuan Kaichuang Company to Tianjin Environmental Investment amounts to no more than RMB89,381,207.

Connected relationship: Jiayuan Kaichuang Company is a direct wholly-owned subsidiary of the Company. Tianjin Environmental Investment is a direct wholly-owned subsidiary of Tianjin Investment Group, a ultimate controlling company of the Company.

XII. MATERIAL CONNECTED TRANSACTIONS (Continued)

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

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

- i. On 16, August 2021, Jiayuanxing entered into the Supplementary Agreement with TLP, pursuant to which Jiayuanxing and TLP agreed to (among others) supplement and revise certain terms of the Original TLP Cold Supply Agreement 2020 on 1 June 2020, including (i) the unit price for provision of cold supply services is revised from RMB64.59 per m² to RMB48.90 per m², (ii) the total service fees for the cold supply services is revised from RMB17,664,499.49 to RMB13,373,494.74, (iii) the additional cold energy loss compensation fees required to be paid by TLP to Jiayuanxing in 2020 is revised from RMB1,156,876.66 to RMB875,851.81, and (iv) the Revised Total Service Fees of Cold Supply Services and the total amount of the Revised Cold Energy Loss Compensation Fee is approximately RMB14,249,346.55.

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

- j. On 30 December 2021, the Board has considered and approved the resolution in respect of the renewal of the the contract operation agreement on Zhangguizhuang Water Recycling Plant and its supporting water pipe-network assets dated on 7 August 2020 between Tianjin Investment Group and Water Recycling Company. Pursuant to the New Agreement, Tianjin Investment Group shall continue to contract the operation of the Zhangguizhuang Water Recycling Plant and its supporting water pipe-network assets to Water Recycling Company during the Operating Term (i.e. from 1 January 2022 to 31 December 2022), while Water Recycling Company shall be responsible for the contract operation of the Zhangguizhuang Water Recycling Plant Project constructed by Tianjin Investment Group, and shall be engaged in the production and sales of recycled water. Water Recycling Company shall pay contracting fees to Tianjin Investment Group, which is equivalent to 60% of the annual profits (i.e. sales revenue from recycled water sales less expenses), based on the figures audited annually during the Operating Term. The Company expects that the contracting fees payable by Water Recycling Company to Tianjin Investment Group will be approximately RMB8.52 million.

Connected relationship: Water Recycling Company is a direct wholly-owned subsidiary of the Company. Tianjin Investment Group is the ultimate controlling company of the Company

XII. MATERIAL CONNECTED TRANSACTIONS (Continued)

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

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

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

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

The Board also confirmed that the auditors of the Company had confirmed the matters as set out in Rule 14A.56 of the Listing Rules regarding the above-mentioned continuing connected transactions occurred in 2021, namely items (a), (b), (e), (f) and (g).

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

Not applicable

6. Major Events

XII. MATERIAL CONNECTED TRANSACTIONS (Continued)

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

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

Not applicable

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

Not applicable

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

Not applicable

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

Not applicable

(3) Significant Connected Transactions in Joint External Investment

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

Not applicable

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

Not applicable

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

Not applicable

XII. MATERIAL CONNECTED TRANSACTIONS (Continued)

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

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

Not applicable

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

Not applicable

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

Not applicable

(5) Financial operations between the Company and financial company with connected relationship, the Company holds financial company and related parties

Not applicable

(6) Other

Connected transaction

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

6. Major Events

XII. MATERIAL CONNECTED TRANSACTIONS (Continued)

(6) Other (Continued)

Connected transaction (Continued)

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

On 28 August 2020, the State-owned Assets Supervision and Administration Commission of the Tianjin Municipal People’s Government agreed with the proposal of the Non-public Issuance of A Shares of the Company in 2020 in principle. On 7 September 2020, The resolution relating to the Non-public Issuance of A Shares (the “**Shareholders’ Resolution**”) and The authorization granted to the Board and its authorised representative(s) to handle all matters relating to the Non-public Issuance of A Shares (the “**Authorization**”) were considered and approved by the Shareholders at the 2020 first extraordinary general meeting, the 2020 first H Shareholders’ class meeting and the 2020 first A Shareholders’ class meeting. The CSRC accepted the application for the Non-public Issuance of A Shares on 29 September 2020.

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

XII. MATERIAL CONNECTED TRANSACTIONS (Continued)

(6) Other (Continued)

Connected transaction (Continued)

At the 2020 Annual General Meeting of the Company held on 27 May 2021, the Shareholders considered and approved the resolution in relation to the 2020 profit distribution plan of the Company, pursuant to which the Company shall distribute a final dividend of RMB1.20 (tax inclusive) in cash for every 10 Shares (the “**2020 Dividend Distribution**”) to all Shareholders calculated based on the total number of 1,427,228,430 shares of the Company, which amounted to RMB171,267,411.60. As the 2020 Dividend Distribution of the Company was conducted on 30 June 2021, adjusted The issue price of the Adjusted Non-public Issuance of A Shares is adjusted from RMB5.56 per share to RMB5.44 per share. As the issue price of the Adjusted Non-public Issuance of A Shares has been adjusted and the total proceeds raised remain unchanged, the number of shares to be issued under the Adjusted Non-public Issuance of A Shares is adjusted to not more than 220,588,234 shares. After the adjustment, the number of A Shares to be issued under the Adjusted Non-public Issuance of A Shares did not exceed 30% of the total share capital of the Company before the Adjusted Non-public Issuance of A Shares, i.e. not exceeding 428,168,529 Shares (including 428,168,529 Shares). Save for the above adjustments, there is no change in other matters concerning the Adjusted Non-public Issuance of A Shares.

Given that the validity period of the Shareholders’ Resolution and the Authorization will expire on 7 September 2021, and the Company has not received the approval of the CSRC, which is an unfulfilled condition precedent to the Non-public Issuance of A Shares, and it is also uncertain whether such approval will be obtained from the CSRC before the expiry of the validity period of the Shareholders’ Resolution and the Authorization. The Company held the 2021 second extraordinary general meeting, the 2021 first H Shareholders’ class meeting and the 2021 first A Shareholders’ class meeting on 15 October 2021, the special resolutions in relation to extension of the validity period of the resolution in relation to the 2020 Non-public Issuance of A Shares by 12 months (i.e. from 7 September 2021 to 7 September 2022) and extension of the validity period of the authorization granted to the Board and its authorised representative(s) to handle all matters relating to the Non-public Issuance of A Shares were considered and approved.

In view of the changes occurred in the policies of the PRC and the capital market environment, and comprehensive consideration of the Company’s actual situation, development plans and many other factors, after careful analysis of the Company and repeated communication with the intermediaries, the Board considered and approved the relevant resolutions on 22 November 2021 in relation to the decision on the termination of the 2020 Adjusted Non-public Issuance of A Shares (the “**Termination Decision**”), and the application to the CSRC for the withdrawal of the application materials for the 2020 Adjusted Non-public Issuance of A Shares.

6. Major Events

XII. MATERIAL CONNECTED TRANSACTIONS (Continued)

(6) Other (Continued)

Connected transaction (Continued)

On 22 November 2021, the Company and TMICL have entered into a Termination Agreement for the TMICL Subscription Agreement. The parties have agreed to terminate the TMICL Subscription Agreement, after entering into the Termination Agreement for the TMICL Subscription Agreement, the TMICL Subscription Agreement will cease to have legal effect on the parties, and TMICL will cease to subscribe for the shares of the Company under the 2020 Adjusted Non-public Issuance of A Shares.

On 16 December 2021, the Company received the “Notice of Termination of the Review of the Application for the Administrative Permission from the CSRC” ([2021] No. 166)* (《中國證監會行政許可申請終止審查通知書》([2021]166號)) issued by the CSRC. In accordance with the relevant provisions of Article 20 of the “Regulations of the Procedures of the Implementation for the Administrative Permission of the CSRC”* (《中國證券監督管理委員會行政許可實施程序規定》), the CSRC decided to terminate the review of the Company’s application for the administrative permission of the 2020 Adjusted Non-public Issuance of A Shares.

Details about the above transactions, please refer to the announcement and the overseas regulatory announcements dated 13 July 2020, the circular dated 21 August 2020, the announcement on the resolutions passed at the 2020 first extraordinary general meeting, the 2020 first H Shareholders’ class meeting and the 2020 first A Shareholders’ class meeting dated 7 September 2020, the announcements dated 28 August 2020, 29 September 2020 and 30 October 2020, the overseas regulatory announcements dated 17 November 2020 and 28 January 2021, the announcements on inside information dated 28 January 2021 and 30 March 2021, the announcement dated 2 July 2021, the announcement dated 3 September 2021 and the circular dated 27 September 2021, the announcement on the resolutions passed at the 2021 second extraordinary general meeting, the 2021 first H Shareholders’ class meeting and the 2021 first A Shareholders’ class meeting dated 15 October 2021, the announcement on inside information dated 22 November 2021 and the announcement dated 16 December 2021.

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

Saved as disclosed above, there is no related party transaction or continuing related party transaction as set out in the Annual Report 2021 of the Company that falls under the definition of “connected transaction” or “continuing connected transaction” which requires disclosure in Chapter 14A of the Listing Rules. The Company confirms that it has complied with the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules.

XIII. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION

(1) Custody, Contracting and Leasing

1. Custody

Not applicable

2. Contracting

Not applicable

3. Leasing

Not applicable

(2) Guarantees

Unit: 0'000 Currency: RMB

Guarantees provided to external parties by the Company (excluding guarantees provided to subsidiaries)	
Total amount of guarantees provided during the reporting period (excluding guarantees provided to subsidiaries)	0
Total balance of guarantees as at the end of the reporting period (A) (excluding guarantees provided to subsidiaries)	0
Guarantees provided to subsidiaries of the Company	
Total amount of guarantees provided to subsidiaries during the reporting period	271,648.09
Total balance of guarantees provided to subsidiaries as at the end of the reporting period (B)	488,946.27
Total amount of guarantees provided by the Company (including guarantees provided to subsidiaries)	
Total amount of guarantees (A+B)	488,946.27
Percentage of the total amount of guarantees to the net assets of the Company (%)	68.70
Of which:	
Amount of guarantees provided to shareholders, ultimate controllers, and their connected parties (C)	0
Amount of guarantees provided directly or indirectly to guaranteed entities with a gearing ratio of over 70% (D)	185,421.59
Total amount of guarantees exceeding 50% of net assets (E)	132,936.37
Total of the above three classes of guarantees (C+D+E)	318,357.96
Explanation on contingent joint liability for undue guarantees	Not applicable
Explanation on guarantees	Nil

6. Major Events

XIII. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION (Continued)

(3) Cash Asset Management Entrusted to Others

1. *Entrusted wealth management*

Not applicable

2. *Entrusted loans*

Not applicable

3. *Others*

Not applicable

(4) Other Material Contracts

Not applicable

XIV. DETAILS OF OTHER MAJOR EVENTS THAT HAVE SIGNIFICANT IMPACT ON INVESTORS' VALUE JUDGMENTS AND INVESTMENT DECISIONS

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

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

(2) Corporate Governance Code

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

XIV. DETAILS OF OTHER MAJOR EVENTS THAT HAVE SIGNIFICANT IMPACT ON INVESTORS' VALUE JUDGMENTS AND INVESTMENT DECISIONS (Continued)

(3) **Model Code for Securities Transactions by the Directors**

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

(4) **Public Float**

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

(5) **Pre-emptive Rights**

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

(6) **Tax Concession**

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

(7) **Charge of Assets**

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

(8) **Audit Committee**

On 31 July 2001, the Board approved the establishment of the Audit Committee which is responsible for reviewing and supervising the financial reporting process and internal control of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including a review of the audited accounts for the year ended 31 December 2021 with the Directors.

6. Major Events

XIV. DETAILS OF OTHER MAJOR EVENTS THAT HAVE SIGNIFICANT IMPACT ON INVESTORS' VALUE JUDGMENTS AND INVESTMENT DECISIONS (Continued)

(9) Other

- (1) Progress of work of share incentives during the reporting period: the Company completed the registration for the initial grant of the 2020 Share Incentive Scheme on January 2021 and completed the grant of reserved options on December 2021. During the reporting period, there were 172 participants eligible for the initial grant and grant of reserved Options, there are 13.518 million options granted under the scheme, the number of corresponding underlying shares was 13.518 million and the exercise price was RMB6.98 per share.

During the reporting period, Caring Company, the controlling subsidiary of the Company, continued to launch a project dividend distribution incentive scheme and the participants consisted of the project R&D leaders, project R&D design backbone personnels, project achievements transformation leaders and project achievements transformation backbone personnels.

- (2) Progress of work for the non-public issuance of A Shares during the reporting period: In view of the changes in national policies and the capital market environment, and comprehensive consideration of the Company's actual situation, development plans and many other factors, after careful analysis of the Company and repeated communication with the intermediaries, the Company terminated and withdrew the original issuance plan, re-amended the issuance plan and refiled to CSRC after obtaining the approval from the board of directors, supervisory committee and shareholder's meeting. On 28 January 2022, the Company received the "Notice of First Feedback on the Review of Administrative Permission Items from CSRC" (No.: 213602) (《中國證監會行政許可項目審查一次反饋意見通知書》(213602號)) issued by the CSRC and the Company has replied within the prescribed time. On 16 March 2022, the Company received the Notice of Second Feedback on the Review of Administrative Licensing Projects of the China Securities Regulatory Commission (No. 213602) issued by the China Securities Regulatory Commission, and the Company will implement the relevant issues one by one with the relevant intermediaries in accordance with the requirements of the notice, disclose the feedback response within the prescribed period, and submit it to the administrative licensing acceptance department of the China Securities Regulatory Commission.

The implementation of the plan for the non-public issuance of A Shares is conditional upon approval from the CSRC. The Company will perform its obligation of information disclosure on a timely basis in strict compliance with provisions and requirements as set out in the relevant laws and regulations on the non-public issuance of shares of listed companies based on the progress of the above matter.

7. Details of Changes in Shares and Shareholders

I. CHANGES IN SHARE CAPITAL

(1) Changes in Shares

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

(2) Changes in Restricted Shares

Not applicable

II. ISSUE AND LISTING OF SECURITIES

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

Unit: Share Currency: RMB

Types of stock and its derivative securities	Date of issue	Issue price (or interest rate)	Volume of issue	Listing date	Authorised trading volume in respect of the listing	Date of termination of trading	Desisting Date
<i>Bonds (include enterprise bonds, corporate bonds and debt financing instruments of non-financial enterprises)</i>							
Corporate bonds (16 Jinchuang 01)	25 October 2016	0.0313	7,000,000	–	–	25 October 2021	25 October 2021
Corporate bonds (18 Jinchuang 01)	26 April 2018	0.0517	11,000,000	–	–	26 April 2023	8 June 2021
Corporate bonds (21 Jinchuang 01)	14 October 2021	0.0485	2,500,000	–	–	18 October 2026	–

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

For details, please refer to “8. Relevant Details of Bonds” in this annual report.

(2) Changes in the Total Number of Shares of the Company and Shareholder Structure and the Company’s Assets and Liabilities Structure

Not applicable

(3) Existing Employee Shares

Not applicable

7. Details of Changes in Shares and Shareholders

III. DETAILS OF SHAREHOLDERS AND ULTIMATE CONTROLLER

(1) Total number of shareholders

Total number of ordinary shareholders as at the end of the reporting period	60,944
Total number of ordinary shareholders as at the end of the previous month before the disclosure date of the annual report	59,968
Total number of shareholders of preferred shares whose voting rights have been restored as at the end of the reporting period	Not applicable
Total number of shareholders of preferred shares whose voting rights have been restored at the end of last month prior to the date on which the annual report shall be disclosed	Not applicable

Note: The total numbers of shareholders above represent the sum of holders of A Shares and H Shares. The total number of ordinary shareholders as at the end of the reporting period is 60,944, among which 61 are holders of H Shares. The total number of ordinary shareholders as at the end of the previous month before the disclosure date of the annual report is 59,968, among which 61 are holders of H Shares.

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

Unit: Share

Name of shareholder (Full name)	Increase/ decrease during the reporting period (shares)	Shareholdings of the top ten shareholders			Pledged, marked or frozen			Nature of the Shareholder
		Number of shares held at the end of the period (shares)	Percentage (%)	Number of restricted shares held (shares)	Status	Number (shares)		
Tianjin Municipal Investment CO., Ltd. (天津市政投資有限公司)	0	715,565,186	50.14	0	None	–	State-owned legal person	
HKSCC Nominees Limited (香港中央結算(代理人)有限公司)	62,000	337,954,810	23.68	0	Unknown	–	Others	
Central Huijin Asset Management Co., Ltd. (中央匯金資產管理有限責任公司)	-301,506	13,868,294	0.97	0	None	–	State-owned legal person	
Hong Kong Securities Clearing Company Limited (香港中央結算有限公司)	4,140,008	12,845,964	0.90	0	None	–	Others	
Zhejiang Jinxin Construction Engineering Co., Ltd. (浙江錦鑫建設工程有限公司)	812,297	7,022,097	0.49	0	None	–	Domestic non-state-owned legal person	
Li Mingguo (李命國)	3,815,285	3,815,285	0.27	0	None	–	Domestic natural person	
Shenyang Railway Coal Group Co., Ltd. (瀋陽鐵道煤炭集團有限公司)	0	1,500,000	0.11	0	None	–	State-owned legal person	
Mao Nianan (毛念安)	1,244,247	1,244,247	0.09	0	None	–	Domestic natural person	
Wu Junxin (吳俊新)	0	1,234,300	0.09	0	None	–	Domestic natural person	
Huang Qiangsheng (黃強勝)	-405,000	1,102,100	0.08	0	None	–	Domestic natural person	

III. DETAILS OF SHAREHOLDERS AND ULTIMATE CONTROLLER (CONTINUED)

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

Name of shareholder	Shareholdings of the top ten shareholders of non-restricted circulating shares		
	Number of non-restricted circulating shares held	Type	Type and number of shares Numbers
Tianjin Municipal Investment CO., Ltd. (天津市政投資有限公司)	715,565,186	Ordinary RMB Shares	715,565,186
HKSCC Nominees Limited (香港中央結算(代理人)有限公司)	337,954,810	Overseas listed Foreign Shares	337,954,810
Central Huijin Asset Management Co., Ltd. (中央匯金資產管理有限責任公司)	13,868,294	Ordinary RMB Shares	13,868,294
Hong Kong Securities Clearing Company Limited (香港中央結算有限公司)	12,845,964	Ordinary RMB Shares	12,845,964
Zhejiang Jinxin Construction Engineering Co., Ltd. (浙江錦鑫建設工程有限公司)	7,022,097	Ordinary RMB Shares	7,022,097
Li Mingguo (李命國)	3,815,285	Ordinary RMB Shares	3,815,285
Shenyang Railway Coal Group Co., Ltd. (瀋陽鐵道煤炭集團有限公司)	1,500,000	Ordinary RMB Shares	1,500,000
Mao Nianan (毛念安)	1,244,247	Ordinary RMB Shares	1,244,247
Wu Junxin (吳俊新)	1,234,300	Ordinary RMB Shares	1,234,300
Huang Qiangsheng (黃強勝)	1,102,100	Ordinary RMB Shares	1,102,100
Description of the repurchase of special accounts among the top ten shareholders	Not applicable		
Explanation of the above-mentioned shareholders' entrusted voting rights, and waiver of voting rights	Not applicable		
Notes on the connected relationship or parties acting in concert among the above shareholders	<p>It is not certain whether there is any connected relationship among the top 10 shareholders.</p> <p>It is not certain whether there is any connected relationship between the top 10 shareholders of non-restricted circulating shares and the top 10 shareholders.</p> <p>Notes: (1) According to the register of members as provided by HKSCC Nominees Limited, those H shares held by it were held on behalf of various clients. As at the end of reporting period, Ningbo BSLS Trade Co., Ltd.* (寧波百思樂斯貿易有限公司) and its concert parties Ningbo Ningdian Investment Development Co., Ltd.* (寧波寧電投資發展有限公司) and LVNENG Investment & Development Co., Ltd. (Hong Kong)* (綠能投資發展有限公司(香港)) held a total of 140,448,000 H shares of the Company, representing 9.841% of the total share capital of the Company, and none of the shares were pledged.</p> <p>(2) The top ten shareholders are not strategic investors of the Company.</p>		
Description of preferred shareholders with restored voting rights and the number of shares they hold	Not applicable		

7. Details of Changes in Shares and Shareholders

III. DETAILS OF SHAREHOLDERS AND ULTIMATE CONTROLLER (CONTINUED)

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

Not applicable

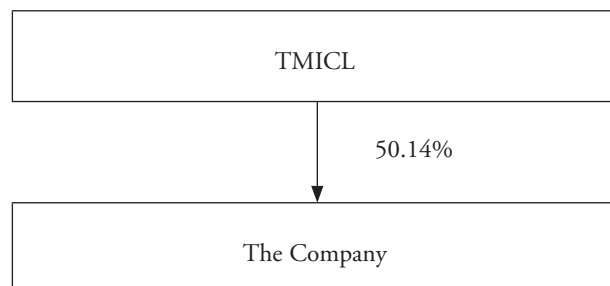
IV. CHANGES IN THE CONTROLLING SHAREHOLDER AND THE ULTIMATE CONTROLLER

(1) Controlling Shareholder

1 Legal person

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

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



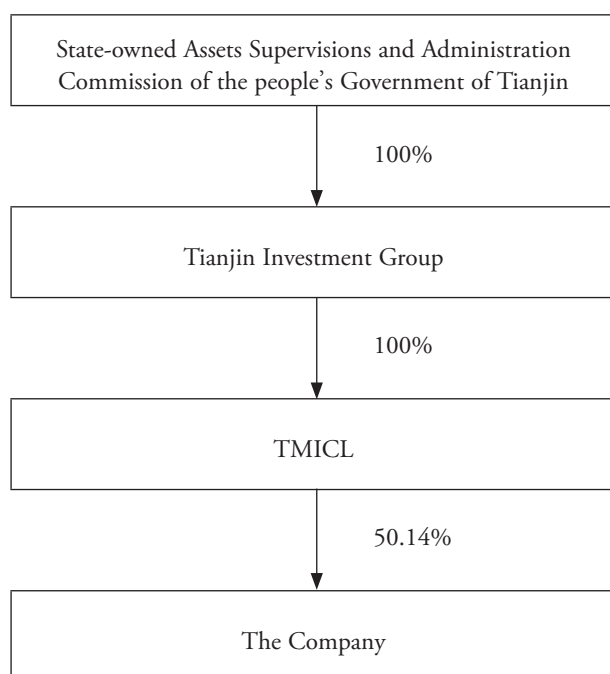
IV. CHANGES IN THE CONTROLLING SHAREHOLDER AND THE ULTIMATE CONTROLLER (CONTINUED)

(2) Details of Ultimate Controller

1 Legal person

Name State-owned Assets Supervision and Administration Commission of the People's Government of Tianjin

2 Details of Ultimate Controller



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

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

VI. DESCRIPTION OF RESTRICTION ON DECREASE OF SHAREHOLDINGS

Not applicable

7. Details of Changes in Shares and Shareholders

VII. SUBSTANTIAL SHAREHOLDERS INTERESTS

- (a) As at 31 December 2021, so far as is known to or can be ascertained after reasonable enquiries by the Directors, Supervisors or chief executive of the Company, the following entities (other than the Directors, Supervisors or chief executive of the Company) had an interest or short position in the shares or underlying shares (including options) of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the “SFO”):

Name of shareholder	Capacity	Number and class of securities (Note)	Approximate percentage of the relevant class of securities	Approximate percentage of the total issued share capital of the Company
TMICL	Beneficial owner	715,565,186 A Shares (L)	65.82%	50.14%
Ningbo Development Investment Group Limited Company* (寧波開發投資集團有限公司)	Interest of controlled corporation	139,410,000 H Shares (L)	41.00%	12.82%
Ningbo Energy Group Co., Ltd.* (寧波能源集團股份有限公司)	Interest of controlled corporation	139,410,000 H Shares (L)	41.00%	12.82%
Ningbo Ningdian Investment Development Co., Ltd.* (寧波寧電投資發展有限公司)	Beneficial owner	85,094,000 H Shares (L)	25.03%	7.83%
Ningbo BSLS Trade Co., Ltd.* (寧波百思樂斯貿易有限公司)	Beneficial owner	44,834,000 H Shares (L)	13.19%	3.14%
ISIS Asset Management Plc	Investment manager	17,286,000 H Shares (L)	5.08%	1.21%

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

- (b) Save as disclosed above, there is no other person (other than the Directors, Supervisors or chief executive of the Company) so far as is known to the Directors, Supervisors or chief executives of the Company who, as at 31 December 2021, had an interest or short position in the shares or underlying shares (including options) of the Company which would fall to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or had, directly or indirectly, interested in 5% or more of nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

8. Relevant Details of Bonds

I. BASIC DETAILS OF CORPORATE BONDS

Unit: Yuan Currency: RMB

Name of Bond	Abbreviation	Code of Bond	Issue Date	Value Date	Maturity Date	Balance of Bond	Coupon (%)	Debt Service	Trading Place	Investor Suitability Arrangement (If Any)	Trading Mechanism	Risk of Delisting
Public Issue of Corporate Bonds of Tianjin Capital Environmental Protection Group Company Limited to Professional Investors in 2021 (Phase I)	21 Jinchuang 01* (21津前01)	188867.SH	14 October 2021	18 October 2021	18 October 2026	250,000,000.00	4.85	The current bond adopts simple interest, the frequency of interest payment is annual interest, and the principal will be repaid in one lump sum upon maturity. Principal will be repaid upon maturity together with interest payable for the last period.	Shanghai Stock Exchange	Professional investors	Bidding + Fixed income	No

Interests payment and bonds repayment during the reporting period

Not applicable

1. Trigger and execution of the issuer or investor option terms and investor protection terms

Not applicable

2. Intermediaries providing services for bonds issuance and duration products

Name of intermediaries	Office address	Name of Signing		
		Accountant	Contact person	Contact number
CITIC Securities Company Limited (Lead underwriter, Bond trustee)	CITIC Securities Mansion, Chaoyang District, Beijing, the PRC	No	Ling Tao, Zhang Xiaohan	010-60837689
Ping An Securities Co., Ltd. (Joint-lead underwriter)	16/F, North Tower, Financial Street Centre, 9 Financial Street, Xicheng District, Beijing, the PRC	No	Jia Xuan, Ma Hui	010-56800258
Tianjin J.D.HANDS Law Firm (天津嘉德恒時律師事務所)	Block B, Hesheng Fortune Square, Junction of Xing'an Road and Duolun Road, Heping District, Tianjin, the PRC	No	Wu Jiangtao	022-83865255
PricewaterhouseCoopers Zhong Tian LLP	6/F, DBS Bank Tower, 1318 Lu Jia Zui Ring Road, Shanghai Free Trade Zone, PRC	Li Jun, Song Yijing	Song Yijing	021-23238888
China Lianhe Credit Rating Co., Ltd. (聯合資信評估股份有限公司)	17th Floor, Building 2, Yard 2, Jianguomenwai Street, Chaoyang District, Beijing, the PRC	No	Zhang Xue, Huang Jingxuan	010-85679696

8. Relevant Details of Bonds

3. Use of proceeds as of the end of reporting period

Unit: Yuan Currency: RMB

Name of bond	Total amounts of capital raised	Utilised amounts	Unutilized amounts	Operation of special account for proceeds (if any)	Rectification of violations regarding the use of proceeds (if any)	Whether the use of proceeds is consistent with the use of proceeds committed, the planned use and other agreements in the prospectus
21 Jinchuang 01* (21津創01)	250,000,000.00	250,000,000.00	0.00	Normal	No	Yes

Progress and operational benefits of raised funds used for construction projects

Not applicable

Description of the change in use of proceeds of the bond

Not applicable

4. Adjustment of credit rating results

Not applicable

5. Implementation and changes of guarantees, debt repayment plans and other debt repayment supporting measures during the reporting period and their impact

Not applicable

6. Other information on corporate bonds

Not applicable

II. NON-FINANCIAL ENTERPRISE DEBTS FINANCING INSTRUMENTS OF THE INTER-BANK BOND MARKET

Not applicable

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

Unit: Yuan Currency: RMB

Major indicators	2021	2020	Increase/decrease for the current period as compared to the same period last year (%)	Reasons
Net profit after deduction of non-recurring profit or loss	613,598,000.00	493,160,000.00	24.42	Mainly due to the increase in net profit
Current ratio	1.51	1.08	39.81	Significant increase in monetary funds and accounts receivable as compared to the same period last year
Quick ratio	1.50	1.07	40.19	Significant increase in monetary funds and accounts receivable as compared to the same period last year
Gearing ratio (%)	61.53	59.68	3.10	Remained stable
Debt to EBITDA ratio	0.21	0.22	-4.55	Increase in interest-bearing liabilities for the current year
Interest protection multiples	3.64	3.64	0.00	Increase in interest-bearing liabilities for the current year
Cash interest protection multiples	3.11	2.79	11.47	Significant increase in operating cash for the current year as compared to the previous period
EBITDA interest protection multiples	5.49	5.75	-4.52	Increase in interest-bearing liabilities for the current year
Debt service ratio (%)	100	100	0.00	Not applicable
Interest coverage rate (%)	100	100	0.00	Not applicable

9. Financial Report

For details, please refer to the Company's accounting statements and audit report for the year 2021.

Auditor's Report

PwC ZT Shen Zi (2022) No. 10031

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

OPINION

What we have audited

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

- the consolidated and company balance sheets as at 31 December 2021;
- the consolidated and company income statements for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in shareholders' equity for the year then ended; and
- notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of Capital Environmental Protection as at 31 December 2021, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

10. Auditor's Report

PwC ZT Shen Zi (2022) No. 10031

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BASIS FOR OPINION

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

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

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

- Goodwill impairment
- Assessment of expected credit losses for accounts receivable and long-term receivables

KEY AUDIT MATTERS (Continued)**Key Audit Matter****Goodwill impairment**

Refer to Note 2(17), Note 2(27) and Note 4(15) to the financial statements.

As at 31 December 2021, the carrying amount of the Capital Environmental Protection's goodwill was RMB405 million. The impairment loss provision for goodwill recognised for the year ended 31 December 2021 amounted to RMB100 million.

Due to the significant impact of goodwill on financial statements, Capital Environmental Protection's management needs to conduct an impairment test on goodwill at each balance sheet date. When performing the goodwill impairment assessment, management compares the recoverable amounts of cash-generating units ("CGUs") to their carrying amounts (including related goodwill) as at 31 December 2021. The recoverable amounts have been determined based on the higher of their value-in-use ("VIU") and their fair value less costs of disposal.

The management has engaged an independent qualified valuer to assist in the goodwill impairment tests. In determining the VIU of the relevant CGUs, key assumptions adopted in the discounted cash flows included the estimates growth rates of the revenue, terminal growth rate, gross margin, and pre-tax discount rate.

We focus on the goodwill impairment assessment in the audit because the key assumptions in the goodwill impairment test involve significant management's judgements and estimates, and the impairment loss of goodwill recognised by the management in 2021 was material.

How our audit addressed the Key Audit Matter

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

- (1) Understood, evaluated and validated the Group's internal controls over the goodwill impairment assessment and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud;
- (2) Assessed the management's forecasts reliability by comparing the estimated cash flow forecasts with the historical financial performance of certain CGUs;
- (3) Assessed the appropriateness of the CGUs' identification related to the goodwill;
- (4) Assessed the competence, capability and independence of the external valuer engaged by management;
- (5) Discussed with the management and the external valuer and evaluated the appropriateness of the methodology and the key assumptions used by them in the goodwill impairment assessment, including the estimates growth rates of the revenue, terminal growth rate, gross margin and pre-tax discount rate. Assessed the reasonableness of the key assumptions adopted by comparing them with historical financial performance, management's approved budgets and the statistics of industry research reports. Involved our in-house valuation experts to assess the appropriateness of the method adopted by management to perform goodwill impairment assessment, terminal growth rate and pre-tax discount rate with reference to the market data;
- (6) Evaluated the reasonableness of the management's sensitivity analysis on the key assumptions adopted in the discounted cash flow forecasts, to assess the impact of reasonable changes on the recoverable amount;
- (7) Checked the mathematical accuracy of the provision for goodwill impairment;
- (8) Understood and evaluated the appropriateness of the goodwill impairment disclosures made by the management in financial statements.

Based on the above, we considered that the significant estimates and judgments made by management in relation to the goodwill impairment assessment were supportable by the evidence obtained, and procedures performed.

KEY AUDIT MATTERS (Continued)

Key Audit Matter (Continued)

Assessment of expected credit losses for accounts receivable and long-term receivables

Refer to note 2(9), 2(27), 4(3) accounts receivable and 4(8) long-term receivables to the consolidated financial statements.

As at 31 December 2021, the Group's accounts receivable amounted to RMB2,503 million, and a loss allowance of RMB178 million was recognised. The Group's long-term receivables (current portion included) amounted to approximately RMB4,093 million, and a loss allowance of RMB40 million was recognised. (Accounts receivable and long-term receivables are collectively referred to as "Receivables"). The Receivables represented 30.28% of the consolidated total assets of the Group.

The balance of loss allowance for Receivables represented the management's best available estimates on the expected credit losses ("ECL") for Receivable as of the balance sheet date.

The Group assessed the ECL on an individual basis for Receivables with material amount and significant lower credit risk, as well as Receivables whose credit risk had significantly increased since initial recognition or whose credit impairment was recognized. And the Group divides the remaining Receivables into certain groups on the basis of similar risk characteristics and calculates the ECL for each group respectively. Significant management judgement is adopted in determining the calculation model and selecting the inputs to calculate the ECL rate, based on the Group's historical aging profile of Receivables, existing market conditions and economic indicators for forward-looking adjustments at the end of each reporting period.

We focus on this area because of the magnitude of the balance of Receivables and the assessment of expected credit losses for Receivables is subject to high degree of estimation uncertainty.

How our audit addressed the Key Audit Matter (Continued)

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

- (1) Understood, evaluated and validated the Group's key internal control and process over the assessment of ECL for Receivables. And assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud;
- (2) Evaluated the outcome of prior period assessment of ECL for receivables to assess the effectiveness of management's estimation process;
- (3) Evaluated the appropriateness of the methodology and model as adopted by management for the calculation of ECL by considering the nature and characteristics of customers;
- (4) Assessed the reasonableness of management's assessment of ECL by considering the reasonableness of grouping category of the customers as group or as individual, Verified the accuracy of the aging analysis of receivables by checking bank statements, invoices and related supporting documentation on a sample basis. Evaluated the reasonableness of the economic growth data as selected by management for the forward-looking adjustments on the applied ECL rates by comparing with those as obtained from our research on the macroeconomic data as published in China;
- (5) Checked the mathematical accuracy of the calculation of the provision for loss allowance.

Based on the above, we considered that the significant judgments and estimates made by management in relation to the ECL assessment of receivables were supportable by the evidence obtained and procedures performed.

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OTHER INFORMATION

Management of Capital Environmental Protection is responsible for the other information. The other information comprises all of the information included in 2021 annual report of Capital Environmental Protection other than the financial statements and our auditor's report thereon.

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

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

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

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

In preparing these financial statements, management is responsible for assessing Capital Environmental Protection'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 management either intends to liquidate Capital Environmental Protection or to cease operations, or has no realistic alternative but to do so.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Capital Environmental Protection'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 these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Capital Environmental Protection to cease to continue as a going concern.
- Evaluate the overall presentation (including the disclosures), structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Capital Environmental Protection to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

Signing CPA Du Kai
(Engagement Partner)

24 March 2022

Signing CPA Shu Wei

11. Financial Statements prepared in accordance with the PRC Accounting Standards for Business Enterprises Consolidated and Company Balance Sheet

As at 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

ASSETS	Note	31 December 2021 Consolidated	31 December 2020 Consolidated	31 December 2021 Company	31 December 2020 Company
Current assets					
Cash at bank and on hand	4(1)	2,139,487	1,663,646	984,835	623,111
Notes receivable	4(2)	8,123	2,656	-	-
Accounts receivable	4(3), 15(1)	2,325,550	1,959,083	1,289,179	1,126,477
Advances to suppliers	4(4)	20,834	26,220	2,303	-
Other receivables	4(5), 15(2)	29,293	24,117	61,741	25,883
Inventories	4(6)	21,828	17,460	6,659	5,995
Current portion of non-current assets	4(8)	241,114	20,049	23,001	20,049
Other current assets	4(7)	50,896	82,228	213,037	375,011
Total current assets		<u>4,837,125</u>	<u>3,795,459</u>	<u>2,580,755</u>	<u>2,176,526</u>
Non-current assets					
Long-term receivables	4(8)	3,811,904	1,647,402	1,949,531	1,647,402
Long-term equity investments	4(9), 15(3)	195,000	195,000	5,036,959	4,223,545
Investments in other equity instruments	4(10)	2,000	2,000	2,000	2,000
Fixed assets	4(11)	973,273	809,495	133,094	148,551
Construction in progress	4(12)	29,660	9,859	3,728	340
Right-of-use assets	4(13)	9,021	-	9,021	-
Intangible assets	4(14)	10,331,691	11,999,818	3,692,720	3,865,856
Goodwill	4(15)	405,461	-	-	-
Deferred tax assets	4(16)	19,268	12,965	49,750	-
Other non-current assets	4(17)	450,889	330,971	5,020	40,832
Total non-current assets		<u>16,228,167</u>	<u>15,007,510</u>	<u>10,881,823</u>	<u>9,928,526</u>
TOTAL ASSETS		<u>21,065,292</u>	<u>18,802,969</u>	<u>13,462,578</u>	<u>12,105,052</u>

**11. Financial Statements prepared in accordance with the PRC
Accounting Standards for Business Enterprises
Consolidated and Company Balance Sheet**

As at 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

	Note	31 December 2021 Consolidated	31 December 2020 Consolidated	31 December 2021 Company	31 December 2020 Company
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities					
Short-term borrowings	4(19)	145,852	–	112,819	–
Accounts payable	4(20)	429,522	294,973	95,365	43,558
Contract liabilities	4(21)	567,682	527,410	4,950	4,950
Employee benefits payable	4(22)	104,568	85,620	50,324	43,202
Taxes payable	4(23)	47,291	56,841	860	4,688
Other payables	4(24)	958,718	955,773	236,710	230,454
Current portion of non-current liabilities	4(25)	957,139	1,596,263	666,242	1,536,886
Other current liabilities		–	–	–	70,000
Total current liabilities		3,210,772	3,516,880	1,167,270	1,933,738
Non-current liabilities					
Long-term borrowings	4(26)	7,197,167	4,227,894	3,808,872	1,396,472
Debentures payable	4(27)	250,000	1,098,848	250,000	1,098,848
Lease liabilities	4(28)	6,230	–	6,230	–
Long-term payables	4(29)	196,256	247,734	193,856	239,134
Provisions	4(30)	15,212	13,737	11,665	11,665
Deferred income	4(31)	1,933,891	1,981,434	1,457,045	1,524,402
Deferred tax liabilities	4(16)	119,694	100,799	84,016	36,085
Other non-current liabilities	4(32)	32,000	34,000	580,000	380,000
Total non-current liabilities		9,750,450	7,704,446	6,391,684	4,686,606
Total liabilities		12,961,222	11,221,326	7,558,954	6,620,344
Shareholders' equity					
Share capital	4(33)	1,427,228	1,427,228	1,427,228	1,427,228
Capital surplus	4(34), 15(4)	437,949	431,024	388,158	380,788
Surplus reserve	4(35)	677,336	619,054	677,336	619,054
Undistributed profits	4(36), 15(5)	4,577,685	4,114,045	3,410,902	3,057,638
Total equity attributable to equity shareholders of the Company		7,120,198	6,591,351	5,903,624	5,484,708
Minority interests		983,872	990,292	–	–
Total shareholders' equity		8,104,070	7,581,643	5,903,624	5,484,708
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY		21,065,292	18,802,969	13,462,578	12,105,052

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

Liu Yujun
Legal representative:

Jing Wanying
Principal in charge of accounting:

Liu Tao
Head of accounting department:

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

As at 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

	Note	2021 Consolidated	2020 Consolidated	2021 Company	2020 Company
1. Revenue	4(37), 15(6)	4,535,579	3,363,874	1,605,789	1,488,207
Less: Cost of sales	4(37), 15(6)	(3,188,296)	(2,185,119)	(952,044)	(927,808)
Taxes and surcharges	4(38)	(44,698)	(48,769)	(19,784)	(22,170)
Selling expenses	4(39)	(11,835)	(15,879)	–	–
General and administrative expenses	4(40)	(224,833)	(178,078)	(107,254)	(99,280)
Research and development expenses	4(41)	(18,345)	(13,201)	(1,303)	(3,184)
Financial expenses – net	4(42)	(116,692)	(239,100)	(149,058)	(181,111)
Including: Interest expenses		(339,417)	(272,030)	(234,869)	(204,028)
Interest income		193,656	23,035	55,917	12,527
Add: Other income	4(44)	113,826	162,410	78,696	119,292
Investment income	15(7)	–	–	363,600	356,503
Including: Share of profit of associates		–	–	–	–
Reversal of/(provision for) credit impairment	4(45)	4,144	(88,332)	3,829	(59,005)
Less: Asset impairment losses	4(46)	(151,819)	(34,808)	(163,329)	(12,250)
(Losses)/gains on disposals of assets	4(47)	(22)	67	–	13
2. Operating profit		897,009	723,065	659,142	659,207
Add: Non-operating income	4(48)	1,173	1,807	517	142
Less: Non-operating expenses	4(49)	(2,123)	(6,688)	(303)	(2,217)
3. Total profit		896,059	718,184	659,356	657,132
Less: Income tax expenses	4(50)	(177,049)	(112,046)	(76,543)	(49,083)
4. Net profitx		719,010	606,138	582,813	608,049
Classified by continuity of operations					
Net profit from continuing operations		719,010	606,138	582,813	608,049
Net profit from discontinued operations		–	–	–	–
Classified by ownership of the equity					
Attributable to equity shareholders of the Company		693,189	570,039	582,813	608,049
Minority interests		25,821	36,099	–	–
5. Other comprehensive income, net of tax		–	–	–	–
6. Total comprehensive income		719,010	606,138	582,813	608,049
Attributable to equity owners of the Company		693,189	570,039	582,813	608,049
Attributable to minority interests		25,821	36,099	–	–
7. Earnings per share					
Basic earnings per share (in RMB Yuan)	4(51)	0.49	0.40	–	–
Diluted earnings per share (in RMB Yuan)	4(51)	0.49	0.40	–	–

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

Liu Yujun

Legal representative:

Jing Wanying

Principal in charge of accounting:

Liu Tao

Head of accounting department:

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

As at 31 DECEMBER 2021

(All amounts in RMB thousand unless otherwise stated)

	Note	2021 Consolidated	2020 Consolidated	2021 Company	2020 Company
1. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		3,765,136	2,384,484	1,190,942	875,856
Refund of taxes and surcharges		21,236	92,363	11,114	70,719
Cash received relating to other operating activities	4(52)(c)	141,625	63,459	78,151	26,370
Sub-total of cash inflows		3,927,997	2,540,306	1,280,207	972,945
Cash paid for goods and services		(2,215,423)	(1,329,602)	(634,552)	(702,473)
Cash paid to and on behalf of employees		(434,666)	(352,037)	(154,054)	(132,294)
Payments of taxes and surcharges		(261,964)	(265,157)	(119,325)	(145,162)
Cash paid relating to other operating activities	4(52)(d)	(79,136)	(61,074)	(29,122)	(27,536)
Sub-total of cash outflows		(2,991,189)	(2,007,870)	(937,053)	(1,007,465)
Net cash flows from operating activities	4(52)(a)	936,808	532,436	343,154	(34,520)
2. Cash flows from investing activities					
Cash received from returns on investment		–	–	326,890	358,323
Cash received from subsidiaries		–	–	532,496	781,389
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	4(52)(e)	4,214	623	312	147
Withdrawal of restricted cash		760	6,237	–	–
Sub-total of cash inflows		4,974	6,860	859,698	1,139,859
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(838,669)	(1,543,318)	(72,757)	(191,387)
Net cash paid to acquire subsidiaries and associates	4(52)(f)	(673,024)	–	(973,583)	(168,743)
Payment of restricted bank deposits		(40,702)	(3,914)	(5,077)	(77)
Cash paid to subsidiaries		–	–	(336,043)	(583,894)
Sub-total of cash outflows		(1,552,395)	(1,547,232)	(1,387,460)	(944,101)
Net cash flows from investing activities		(1,547,421)	(1,540,372)	(527,762)	195,758

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

As at 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

	Note	2021 Consolidated	2020 Consolidated	2021 Company	2020 Company
3. Cash flows from financing activities					
Cash received from capital contributions		2,698	18,306	–	–
Including: Cash received from capital contributions by minority shareholders of subsidiaries		2,698	18,306	–	–
Cash received from borrowings		5,815,026	2,700,168	4,617,379	1,434,991
Cash received from issuance of debentures		250,000	–	250,000	–
Sub-total of cash inflows		6,067,724	2,718,474	4,867,379	1,434,991
Cash repayments of borrowings		(4,453,149)	(1,689,129)	(3,894,503)	(1,378,750)
Cash payments for interest expenses		(359,070)	(249,035)	(255,196)	(183,130)
Cash payments for distribution of dividends or profits		(203,993)	(186,018)	(171,425)	(152,571)
Including: Dividends and profits paid to minority shareholders by subsidiaries		(32,584)	(33,447)	–	–
Sub-total of cash outflows		(5,016,212)	(2,124,182)	(4,321,124)	(1,714,451)
Net cash flows from financing activities		1,051,512	594,292	546,255	(279,460)
4. Effect of foreign exchange rate changes on cash and cash equivalents		–	–	–	–
5. Net increase/(decrease) in cash and cash equivalents		440,899	(413,644)	361,647	(118,222)
Add: Cash and cash equivalents at beginning of year		1,652,657	2,066,301	617,960	736,182
6. Cash and cash equivalents at end of year	4(52)(b)	2,093,556	1,652,657	979,607	617,960

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

Liu Yujun
Legal representative:

Jing Wanying
Principal in charge of accounting:

Liu Tao
Head of accounting department:

11. Financial Statements prepared in accordance with the PRC Accounting Standards for Business Enterprises Consolidated Statement of Changes in Equity

As at 31 DECEMBER 2021

(All amounts in RMB thousand unless otherwise stated)

	Note	Attributable to shareholders of the Company					Total shareholders' equity
		Share capital	Capital surplus	Surplus reserves	Undistributed profits	Minority interests	
Balance at 31 December 2019		1,427,228	431,024	558,250	3,757,523	968,162	7,142,187
Movements for the year ended							
31 December 2020							
Total comprehensive income							
Net profit		–	–	–	570,039	36,099	606,138
Capital contribution by shareholders							
Capital increase by shareholders		–	–	–	–	18,306	18,306
Profit distribution							
Appropriation to surplus reserves	4(35)	–	–	60,804	(60,804)	–	–
Profit distribution to shareholders	4(36)(a)	–	–	–	(152,713)	(32,275)	(184,988)
Balance at 31 December 2020		<u>1,427,228</u>	<u>431,024</u>	<u>619,054</u>	<u>4,114,045</u>	<u>990,292</u>	<u>7,581,643</u>
Balance at 31 December 2020		1,427,228	431,024	619,054	4,114,045	990,292	7,581,643
Movement for the year ended							
31 December 2021							
Total comprehensive income							
Net profit		–	–	–	693,189	25,821	719,010
Capital contribution by shareholders							
Capital increase by shareholders		–	–	–	–	2,698	2,698
Amount recorded in owners' equity arising from share-based payment arrangements		–	6,925	–	–	445	7,370
Profit distribution							
Appropriation to surplus reserves	4(35)	–	–	58,282	(58,282)	–	–
Profit distribution to shareholders	4(36)	–	–	–	(171,267)	(35,384)	(206,651)
Balance at 31 December 2021		<u>1,427,228</u>	<u>437,949</u>	<u>677,336</u>	<u>4,577,685</u>	<u>983,872</u>	<u>8,104,070</u>

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

Liu Yujun

Legal representative:

Jing Wanying

Principal in charge of accounting:

Liu Tao

Head of accounting department:

11. Financial Statements prepared in accordance with the PRC Accounting Standards for Business Enterprises Consolidated Statement of Changes in Equity

As at 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

	Share capital	Capital surplus	Surplus reserves	Undistributed profits	Total shareholders' equity
Balance at 31 December 2019	1,427,228	380,788	558,250	2,663,106	5,029,372
Movements for the year ended 31 December 2020					
Total comprehensive income					
Net profit	–	–	–	608,049	608,049
Profit distribution					
Appropriation to surplus reserves	–	–	60,804	(60,804)	–
Profit distribution to shareholders	–	–	–	(152,713)	(152,713)
Balance at 31 December 2020	<u>1,427,228</u>	<u>380,788</u>	<u>619,054</u>	<u>3,057,638</u>	<u>5,484,708</u>
Balance at 31 December 2020	1,427,228	380,788	619,054	3,057,638	5,484,708
Movements for the year ended 31 December 2021					
Total comprehensive income					
Net profit	–	–	–	582,813	582,813
Capital contribution by owners					
Amount recorded in owners' equity arising from share-based payment arrangements	–	7,370	–	–	7,370
Profit distribution					
Appropriation to surplus reserves	–	–	58,282	(58,282)	–
Profit distribution to shareholders	–	–	–	(171,267)	(171,267)
Balance at 31 December 2021	<u>1,427,228</u>	<u>388,158</u>	<u>677,336</u>	<u>3,410,902</u>	<u>5,903,624</u>

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

Liu Yujun
Legal representative:

Jing Wanying
Principal in charge of accounting:

Liu Tao
Head of accounting department:

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

Notes to the Consolidated Financial Statements

For the year ended 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

1 GENERAL INFORMATION

Tianjin Capital Environmental Protection Group Company Limited was established on the basis of Tianjin Bohai Chemical Industry (Group) Company Limited (“Bohai Chemical Industry”). Bohai Chemical Industry was established on 8 June 1993 in Tianjin, the People’s Republic of China (the “PRC”). Shares (“H Shares”) were issued to foreign investors, listed in Hong Kong Stock Exchange (“H shares”) in May 1994; then listed in The Shanghai Stock Exchange (“A Shares”) in June 1995. Due to significant losses, Bohai Chemical Industry Company had completed the equity and assets reorganization, becoming Tianjin Capital Environmental Protection Group Company Limited (the “Company”) at the end of year 2000. As at 31 December 2021, the total share capital of the Company was RMB1.427 billion with a par value of RMB1 per share.

The registered address of the Company is TCEP Building 12th Floor, 76 Weijin South Road, Nankai District, Tianjin, the PRC. The parent company of the Company is Tianjin Municipal Investment Company Limited (“Tianjin Municipal Investment”) and the ultimate holding company of the Company is Tianjin Urban Infrastructure Construction Investment Group Company Limited (“Tianjin Infrastructure Investment Group”).

The principal business activities of the Company and its subsidiaries (hereafter collectively the “Group”) include the processing of sewage water, supply of tap water, recycled water business, heating and cooling supply services, hazardous waste treatment, and the construction and management of related facilities.

(1) Processing of Sewage Water

In accordance with the concession agreements signed with the relevant institutions affiliated to the governments of many places in China (“Service Concession Right Agreements”), the Group engages in processing sewage water through the following sewage treatment plants, obtaining the revenue of the processing of sewage at the agreed price. According to the changes in the factors affecting the cost of water price, the unit price of sewage treatment service will be adjusted periodically based on the contract:

Location	Agreement date	Authorised by
Guiyang, Guizhou	16 September 2004	Guiyang City Administration Bureau
Baoying, Jiangsu	13 June 2005	Baoying Construction Bureau
Chibi, Hubei	15 July 2005	Chibi Construction Bureau
Fuyang, Anhui	18 December 2005	Fuyang Construction Committee
Qujing, Yunnan	25 December 2005	Qujing Housing and Urban Construction Bureau
Honghu, Hubei	29 December 2005	Honghu Construction Bureau
Hangzhou, Zhejiang	20 November 2006	Hangzhou Municipal Facilities Supervision Center
Jinghai, Tianjin	12 September 2007	Management Committee of Tianjin Tianyu Science Technology Park
Wendeng, Weihai, Shandong	19 December 2007	Wendeng Construction Bureau
Xi’an, Shaanxi	18 March 2008	Xi’an Infrastructure Investment Group
Xianning, Hubei	16 October 2008	Xianning Construction Committee
Yingdong, Fuyang, Anhui	10 August 2009	Fuyang Yingdong Construction Bureau
Ninghe, Tianjin	21 September 2010	Management Committee of Modern Industrial Zone of Ninghe
Qujing, Yunnan	16 August 2011	Qujing Housing and Urban Construction Bureau
Chaohu, Anhui	25 August 2011	Hanshan Housing and Urban Construction Bureau

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

For the year ended 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

1 GENERAL INFORMATION (Continued)

(1) Processing of Sewage Water (Continued)

In accordance with the concession agreements signed with the relevant institutions affiliated to the governments of many places in China (“Service Concession Right Agreements”), the Group engages in processing sewage water through the following sewage treatment plants, obtaining the revenue of the processing of sewage at the agreed price. According to the changes in the factors affecting the cost of water price, the unit price of sewage treatment service will be adjusted periodically based on the contract: (Continued)

Location	Agreement date	Authorised by
Jingu, Jinnan District, Tianjin	18 February 2014	Tianjin Urban-rural Construction Commission and Tianjin Water Authority Bureau
Xianyang Road, Xiqin District, Tianjin	18 February 2014	Tianjin Urban-rural Construction Commission and Tianjin Water Authority Bureau
Dongjiao, Dongli District, Tianjin	18 February 2014	Tianjin Urban-rural Construction Commission and Tianjin Water Authority Bureau
Beicang, Beichen District, Tianjin	18 February 2014	Tianjin Urban-rural Construction Commission and Tianjin Water Authority Bureau
Yingshang County, Fuyang, Anhui	16 June 2016	Yingshang Housing and Urban Construction Bureau
Karamay, Xinjiang	4 November 2016	Karamay Construction Bureau
Linxia, Gansu	13 May 2017	Linxia Housing and Urban Construction Bureau
Ningxiang, Hunan	5 June 2017	Ningxiang Economic and Technological Bureau
Hefei, Anhui	16 June 2017	Hefei Urban Construction Committee
Dalian, Liaoning	1 November 2017	Dalian Urban Construction Bureau
Bayannur, Inner Mongolia	12 December 2017	Bayannur Water Bureau and Bayannur Hetao Water Group Company, Ltd.
Ningxiang, Hunan	27 April 2018	Ningxiang Economic and Technological Bureau
Honghu, Hubei	9 June 2018	Honghu Housing and Urban Construction Bureau
Shibing County, Qian dongnan, Guizhou	12 July 2018	Shibing Water Bureau
Hefei, Anhui	28 November 2018	Hefei Urban Construction Committee
Deqing County, Huzhou, Zhejiang	21 November 2018	Deqing Qianyuan Municipal Government
Jieshou, Anhui	2 March 2019	Jieshou Housing and Urban Construction Bureau
Gaocheng District, Shijiazhuang, Hebei	2 April 2019	Hebei Gaocheng Economic and Technological Bureau
Jiuquan, Gansu	22 June 2019	Jiuquan Suzhou Municipal Government
Yingdong, Fuyang, Anhui	26 August 2019	Fuyang Urban-rural Construction Commission
Huoqiu County, Liuan, Anhui	2 January 2020	Huoqiu Housing and Urban Construction Bureau
Huize County, Qujing, Yunnan	24 February 2020	Huize Housing and Urban Construction Bureau
Honghu, Hubei	18 March 2021	Honghu Housing and Urban Construction Bureau
Xiqing District, Tianjin	12 May 2021	Tianjin Xiqing District Water Affairs Center

(2) Supply of Tap Water

Pursuant to Service Concession Right Agreements, tap water supply service of the Group was initially at the pre-determined price. According to the changes in the factors affecting the cost of water price, the unit price of tap water supply service would be adjusted periodically based on the contract. As shown below:

Location	Agreement date	Authorised by
Bayannur, Inner Mongolia	12 December 2017	Bayannur Water Bureau and Bayannur Hetao Water Group Company, Ltd.
Hanshou County, Changde, Hunan	11 March 2019	Hanshou Water Bureau
Qujing, Yunnan	25 December 2005	Qujing Sewage Company

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

For the year ended 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

1 GENERAL INFORMATION (Continued)

(3) Recycled Water Business

The Group's recycled water business includes developing, constructing, and operating of recycled water projects, production and sales of recycled water, as well as provision of related research, development and technical consultation services.

(4) Heating and Cooling Supply Services

Pursuant to Service Concession Right Agreements, the Group provides the following areas with the heating and cooling supply services, including design, construction, operations and transfer of centralised heating and cooling infrastructures, and provision of heating and cooling services:

Location	Agreement date	Authorised by
Xiqing District, Tianjin	16 June 2016	Tianjin Urban-Rural Construction Commission
Binhai New Area, Tianjin	11 July 2017	Tianjin Urban-Rural Construction Commission and The People's government of Tianjin Binhai New Area
Hexi, Tianjin	16 June 2016	Tianjin Urban-Rural Construction Commission
Hexi, Tianjin	16 March 2011	Tianjin Urban-Rural Construction and Transportation Commission

(5) Hazardous Waste Treatment

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

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

These financial statements were approved by the Company's Board of Directors on 24 March 2022.

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

For the year ended 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group determines the specific accounting policies and accounting estimates based on the characteristics of production and operation, which are mainly reflected in the measurement of expected credit losses on receivables and contractual assets (Note 2(9)), depreciation of fixed assets, amortization of intangible assets and right of use assets (Note 2(12), 2(15), and (24)), impairment of intangible assets and Goodwill (Note 2(17)), and the timing of revenue recognition (Note 2(21)) etc.

The Key Judgments, Significant Accounting Estimates and Key Assumptions used by the Group in determining material accounting policies are detailed in Note 2 (27).

(1) Basis of preparation

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

The financial statements are prepared on a going concern basis.

The new Hong Kong Companies Ordinance came into effect on 3 March 2014. Some related matters in the financial statements have been disclosed in accordance with the requirements of the Hong Kong Companies Ordinance.

(2) Statement of compliance with Accounting Standards for Business Enterprises

The financial statements of the Company for the year ended 31 December 2021 are in compliance with the Accounting Standards for Business Enterprise truly and completely presenting the consolidated and the Company’s financial position as of 31 December 2021 and of their financial performance, cash flows and other information for the year then end.

(3) Accounting year

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

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

For the year ended 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(4) Recording currency

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

(5) Business combination not under common control

The Group's consolidated costs incurred and the identifiable net assets acquired in connection with the merger are measured at a fair value at the acquisition date. The difference between the cost of consolidation that is greater than the share of the fair value of the recognisable net assets of the purchased party acquired in the merger on the acquisition date is recognized as goodwill. And the difference between the cost of consolidation and the difference between the share of the fair value of the recognisable net assets of the purchased party acquired in the merger shall be included in the profit or loss of the current period. Directly related expenses incurred for the purpose of a business combination are recognized in the profit or loss of the current period when incurred. Transaction fees for the issuance of equity or debt securities for a corporate merger are included in the initial recognition amount of equity or debt securities.

(6) Preparation of consolidated financial statements

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

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

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

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

For the year ended 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(6) Preparation of consolidated financial statements (Continued)

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

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

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Foreign currency translation

(a) Foreign currency transactions

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

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

For the year ended 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Foreign currency translation (Continued)

(a) *Foreign currency transactions* (Continued)

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

(b) *Translation of foreign currency financial statements*

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

(9) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument.

(a) *Financial assets*

(i) Classification and measurement

Based on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, financial assets are classified as: (1) financial assets at amortised cost; (2) financial assets at fair value through other comprehensive income; (3) financial assets at fair value through profit or loss.

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

For the year ended 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

(a) Financial assets (Continued)

(i) Classification and measurement (Continued)

At initial recognition, the financial assets are measured at fair value. Transaction costs that are incremental and directly attributable to the acquisition of the financial assets are included in the initially recognised amounts, except for the financial assets at fair value through profit or loss, the related transaction costs of which are expensed in profit or loss for the current period. Accounts receivable or notes receivable arising from sales of products or rendering of services (excluding or without regard to significant financing components) are initially recognised at the consideration that is entitled to be received by the Group as expected.

Debt instruments

The debt instruments held by the Group refer to the instruments that meet the definition of financial liabilities from the perspective of the issuer.

Measured at amortised cost:

The objective of the Group's business model is to hold the financial assets to collect the contractual cash flows, and the contractual cash flow characteristics are consistent with a basic lending arrangement, which gives rise on specified dates to the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The interest income of such financial assets is recognised using the effective interest rate method. The Group's financial assets mainly comprise cash at bank and on hand, notes receivable, accounts receivable, other receivables and long-term receivables, etc. Long-term receivables that are due within one year (inclusive) as from the balance sheet date are included in the current portion of non-current assets.

Equity instruments

Investments in equity instruments, over which the Group has no control, joint control or significant influence, not held for trading are designated as financial assets at fair value through other comprehensive income under other investments in equity instruments. The relevant dividend income of such financial assets is recognised in profit or loss for the current period.

For the year ended 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

(a) Financial assets (Continued)

(ii) Impairment

The Group assesses the expected credit losses (“ECL”) for financial assets and contract assets at amortised cost. The Group recognises a loss allowance for such losses at each reporting date

Giving consideration to reasonable and supportable information that is available without undue cost or effort at the balance sheet date on past events, current conditions and forecasts of future economic conditions weighted by the probability of default, the Group recognises the ECL as the probability-weighted amount of the present value of the difference between the cash flows receivable from the contract and the cash flows expected to collect.

At each balance sheet date, the ECL of financial instruments at different stages are measured respectively. 12-month ECL is recognised for financial instruments in Stage 1 which don't have a significant increase in credit risk since initial recognition; lifetime ECL is recognised for financial instruments in Stage 2 which have had a significant increase in credit risk since initial recognition but are not deemed to be credit-impaired; and lifetime ECL is recognised for financial instruments in Stage 3 that are credit-impaired.

For the financial instruments with low credit risk as at the balance sheet date, the Group assumes there is no significant increase in credit risk since initial recognition. The Group recognises the 12-month ECL.

For financial instruments in Stage 1, Stage 2 and those with lower credit risk, the Group calculates the interest income by applying the effective interest rate to the gross carrying amount (before net of expected credit loss provision). For the financial instrument in Stage 3, the interest income is calculated by applying the effective interest rate to the amortised cost (net of expected credit loss provision).

For accounts receivable arising from sales of goods and rendering of services in the ordinary course of operating activities, the Group recognises the lifetime ECL regardless of whether there exists a significant financing component.

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

For the year ended 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

(a) Financial assets (Continued)

(ii) Impairment (Continued)

The Group assessed the ECL on an individual basis for a single financial asset with huge amount and significant lower credit risk, as well as financial assets whose credit risk had significantly increased since initial recognition or whose credit impairment was recognized.

In case the ECL of an individually assessed financial asset cannot be evaluated with reasonable cost, the Group divides the receivables into certain groups on the basis of shared risk characteristics, and calculates the ECL for each group respectively. Basis for determining groups and method for provision are as follows:

Group 1	Related entities within the consolidation scope (for company's financial statements only)	Receivables from related parties within the consolidation scope
Group 2	Banker's acceptance notes group	Banker's acceptance from bank under low risk
Group 3	Government clients group	Government clients other than those in provincial capital cities and municipalities
Group 4	Other customers	Other clients
Group 5	Projects' guarantee deposit	Projects' guarantee
Group 6	Others	Other receivables other than VAT refund receivable and project guarantee deposits

For accounts receivable, notes receivable and long-term receivables arising from sales of goods and rendering of services in the ordinary course of operating activities which are classified into different groups for collective assessment, the Group calculates the ECL with reference to historical credit loss experience, current conditions and forecasts of future economic conditions, and based on the exposure at default and the lifetime ECL rates.

For other receivables that are classified into groups, the Group calculates the ECL with reference to historical credit loss experience, current conditions and forecasts of future economic conditions, and based on the exposure at default and the 12-month or lifetime ECL rates.

The Group recognises the loss provision made or reversed into profit or loss for the current period.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

(a) Financial assets (Continued)

(iii) Derecognition

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

When a financial asset is derecognised, the difference between the carrying amount and the consideration received as well as the cumulative changes in fair value that are previously recognised directly in other comprehensive income is recognised in profit or loss for the current period, except for those measured at fair value through other comprehensive income, the difference aforementioned is recognised in retained earnings instead.

(b) Financial liabilities

Financial liabilities are classified as financial liabilities at amortised cost and financial liabilities at fair value through profit or loss at initial recognition.

Financial liabilities of the Group mainly comprise financial liabilities at amortised cost, including accounts payables, other payables, borrowings, long-term payables and debentures payable, etc. Such financial liabilities are initially recognised at fair value, net of transaction costs incurred, and subsequently measured using the effective interest method. Financial liabilities with maturity of less than 12 months (inclusive) are presented as current liabilities, and those with maturity of longer than 12 months but due within 12 months (inclusive) as from the balance sheet date are presented as current portion of non-current liabilities; and others are presented as non-current liabilities

A financial liability is derecognised or partly derecognised when the underlying present obligation is discharged or partly discharged. The difference between the carrying amount of the derecognised part of the financial liability and the consideration paid is recognised in profit or loss for the current period.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

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

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

(10) Inventories

(a) *Classification*

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

(b) *Costing of inventories*

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

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

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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(10) Inventories (Continued)

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

(11) Long-term equity investments

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

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

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

(a) *Determination of investment cost*

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

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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Long-term equity investments (Continued)

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

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

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

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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Long-term equity investments (Continued)

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

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

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

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

The carrying amounts of long-term equity investments in subsidiaries, associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(17)).

(12) Fixed assets

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

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

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

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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(12) Fixed assets (Continued)

(b) Depreciation methods of fixed assets

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

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

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

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

(c) The carrying amount of a fixed asset is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2(17)).

(d) Disposal of fixed assets

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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(13) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. The carrying amount of construction in progress is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2(17)).

When the asset expenditure and borrowing expenses have already been incurred and the acquisition and construction activities necessary to bring the assets to the intended usable state have begun, borrowing costs incurred by the Group that are directly attributable to assets that require a considerable period of purchase and construction activity to reach the intended usable state begin to be capitalised and included in the cost of the asset. Capitalisation ceases when the acquired asset reaches its intended usable state, and subsequent borrowing costs are included in the profit or loss of the current period. If there is an abnormal interruption in the acquisition and construction activities of the assets, and the interruption lasts for more than 3 consecutive months, the capitalisation of borrowing costs is suspended until the acquisition and construction activities of the assets resume

(14) Borrowing costs

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

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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(15) Intangible assets

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

(a) *Concession rights*

As described in Note 1 (1), (2) and (4), the Group is engaged in the development, financing, operating and maintenance of facilities for public service (the “Concession services”) by the government or its authorised institution over a specified period (the “Concession services period”). The Group is reimbursed for the Concession services related to the operation and franchising of the facility on behalf of the government in accordance with the terms of the Concession services agreements and hand over the facilities to the government or its authorised institution at the end of the concession service period.

The Service concession right agreement sets out the implementation criteria and price adjustment mechanism to stipulate the concession services to be performed of the Group, which meets the dual control and dual characteristics of the Interpretation of Accounting Standard for Business Enterprises No. 14. Therefore, assets under the concession arrangement (“concession project assets”) should be recognized as intangible assets or financial assets accordingly based on the contract. In accordance with the Service concession right agreement, the Group has the right to charge the recipients of services during the Concession services period; but the amount of the fees charged is uncertain, and this right does not constitute an unconditional right to receive cash, and the consideration amount of the relevant concession project assets or the amount of construction revenue recognized as intangible assets when they reach the intended state of use of the franchise project assets. During the period of the concession, where the conditions for the right to receive a determinable amount of cash (or other financial assets) are met, it is recognized as a receivable when the Group has the right to receive the consideration (which depends only on the cause of the passage of time). When the assets of concession project reach their intended usable state, the Group recognises the consideration amount of the assets of the relevant concession project or the recognized amount of the constructed revenue, which exceeds the amount entitled to receive cash of a determinable amount, as intangible assets. Amortization should be between 20 and 30 years on a straight-line basis during the franchise period.

(b) *Land use rights*

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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(15) Intangible assets (Continued)

(c) *Technical know-how and software*

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

(d) *Periodical review of useful life and amortisation method*

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

(e) *Research and development*

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at the end of the project.

Expenditure for the planned investigation, evaluation and selection phases for the study of the production process is expenditures for the research phase, which is included in the current profit and loss when incurred. Prior to mass production, expenditure in the relevant design and testing phases for the final application of the environmental protection equipment production process is expenditure on the development phase. Expenditure on the development phase is capitalised only if all of the following conditions are satisfied:

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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(15) Intangible assets (Continued)

(e) *Research and development* (Continued)

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as development costs in the balance sheet and transferred to intangible assets at the date that the asset is ready for its intended use.

(f) *Impairment of intangible assets*

The carrying amount of intangible assets is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2(17)).

(16) Non-monetary asset exchange

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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(17) Impairment of long-term assets

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

Goodwill that is separately presented in the financial statements is tested at least annually for impairment, irrespective of whether there is any indication that it may be impaired. In conducting the test, the carrying value of goodwill is allocated to the related asset group or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or a group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset group or group of asset groups in proportion to the carrying amounts of assets other than goodwill.

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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(18) Employee benefits

(a) *Short-term employee benefits*

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

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

(b) *Post-employment benefits*

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

Basic pensions

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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(19) Dividends distribution

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

(20) Provisions

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

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

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate. The provisions expected to be settled within one year since the balance sheet date are classified as other current liabilities.

(21) Revenue recognition

The Group recognises revenue at the amount of the consideration which the Group expects to be entitled to receive when the customer obtains control over relevant goods or services.

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

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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(21) Revenue recognition (Continued)

(b) *Construction of the concession right's assets*

Revenue from the construction services under the Services Concession Right Agreement is estimated on a cost plus basis with reference to a prevailing market rate of gross margin applicable to similar construction services rendered, and contract assets are recognised as well.

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

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

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

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

When the Group recognises its revenue in accordance with the progress of completing projects, the part of the Group's obtained unconditional collection right is confirmed as receivables, the rest is confirmed as contract assets, and the impairment loss provision is confirmed on the basis of ECL for receivables and contract assets (Note 2(9)). If the amount received or receivable by the Group exceeds the amount of completed works, the excess shall be recognised as contract liabilities and the Group shall list the assets and liabilities under the same contract on a net basis.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(21) Revenue recognition (Continued)

(d) *Sales of pipeline connection for recycled water* (Continued)

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

(e) *Sales of environmental protection equipment*

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

(f) *Hazardous waste processing income*

The Group provides hazardous and general solid waste treatment, and the disposal cycle of landfill treatment waste is within a short period. The Group recognises the revenue when service is provided according to the actual processing amount of waste and the price agreed on the contract.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(21) Revenue recognition (Continued)

(g) *Contract operation income*

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

(h) *Technical services income*

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

(22) Government grants

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

Government grants are recognised when the grants can be received, and the Group can comply with all attached conditions. If a government grant is a monetary asset, it will be measured at the amount received or receivable. If a government grant is a non-monetary asset, it will be measured at its fair value. If it is unable to obtain its fair value reliably, it will be measured at its nominal amount.

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

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(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(22) Government grants (Continued)

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

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

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

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

(23) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

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

Deferred tax assets and liabilities are offset when:

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

(24) Leases

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

The Group as the lessee

At the lease commencement date, the Group recognises the right-of-use asset and measures the lease liability at the present value of the lease payments that are not paid at that date. Lease payments include fixed payments, the exercise price of a purchase option or termination penalty if the lessee is reasonably certain to exercise that option etc. Variable lease payments in proportion to sales are excluded from lease payments and recognised in profit or loss as incurred. Lease liabilities that are due within one year (inclusive) as from the balance sheet date are included in the current portion of non-current liabilities.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(24) Leases (Continued)

The Group as the lessee (Continued)

Right-of-use assets of the Group comprise leased buildings, machinery and equipment, motor vehicles, etc. Right-of-use assets are measured initially at cost which comprises the amount of the initial measurement of lease liabilities, any lease payments made at or before the commencement date and any initial direct costs, less any lease incentives received. If there is reasonable certainty that the Group will obtain ownership of the underlying asset by the end of the lease term, the asset is depreciated over its remaining useful life; otherwise, the asset is depreciated over the shorter of the lease term and its remaining useful life. The carrying amount of the right-of-use asset is reduced to the recoverable amount when the recoverable amount is below the carrying amount.

For short-term leases with a term of 12 months or less and leases of an individual asset (when new) of low value, the Group chooses to include the lease payments in the cost of the underlying assets or in the profit or loss for the current period on a straight-line basis over the lease term, instead of recognising right-of-use assets and lease liabilities.

The Group accounts for a lease modification as a separate lease if both: (1) the modification increases the scope of the lease by adding the right to use one or more underlying assets; (2) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the contract.

For a lease modification that is not accounted for as a separate lease, the Group redetermines the lease term at the effective date of the lease modification, and remeasures the lease liability by discounting the revised lease payments using a revised discount rate, except that the contract changes directly resulting from COVID-19 are accounted for by applying the practical expedient. For a lease modification which decreases the scope of the lease or shortens the lease term, the Group decreases the carrying amount of the right-of-use asset, and recognises in profit or loss any gain or loss relating to the partial or full termination of the lease. For other lease modifications which lead to the remeasurement of lease liabilities, the Group correspondingly adjusts the carrying amount of the right-of-use asset.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(24) Leases (Continued)

The Group as the lessee (Continued)

For the rent concessions as a direct result of COVID-19 and for the period ended 30 June 2022 only, the Group applies the practical expedient and records the undiscounted concessions in profit or loss when the agreement is reached to discharge the original payment obligation with corresponding adjustment of lease liabilities.

The Group Acts as a lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. An operating lease is a lease other than a finance lease.

(a) Operating leases

Where the Group leases out self-owned buildings, machinery and equipment, and motor vehicles under operating leases, rental income therefrom is recognised on a straight-line basis over the lease term. Variable rental that is linked to a certain percentage of sales is recognised in rental income as incurred.

(25) Share-based payment

(a) *Types of share-based payments*

Share-based payments are transactions in which equity instruments are granted or liabilities are determined on the basis of obtaining services provided by employees. Equity instruments include equity instruments of the company itself, the parent company of the company or other accounting entities in the same group. Share-based payments are classified into equity-settled share-based payments and cash-settled share-based payments.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(25) Share-based payment (Continued)

(a) *Types of share-based payments* (Continued)

Equity-settled share-based payments

The Group's equity incentive plan is an equity-settled share-based payment transactions, in which the Group receives services from employees as consideration for equity instruments of the Company. The services received is measured as the fair value of the equity instruments on the grant date. If employees are granted share options conditional upon the achievement of the performance conditions and complete a specified period of services, the Group recognises an amount for the services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and shall revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates on each balance sheet date. According to the fair value of the equity instruments on the grant date, the services received in the current period are recognized in the relevant costs or expenses, and the corresponding increase in equity during the vesting period. On the exercise date, the amount determined to be recognised as the share capital is calculated based on the number of equity instruments that ultimately exercised.

(b) *The method of determining the fair value of equity instruments*

Equity instruments are share options. The Group assess the fair value by using the binomial option pricing model.

(26) Segment information

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

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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) Critical accounting estimates and judgements

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

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

- (i) Recognition of non-monetary assets exchange that lack of commercial substance

An exchange transaction has commercial substance:

- (1) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or
- (2) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
- (3) the difference in (1) or (2) is significant relative to the fair value of the assets exchanged.

The entire relocation and non-monetary assets exchange arrangement of of the Company's Xianyang Road Sewage Plant and Dongjiao Water Plant are conducted based on the instructions of the Tianjin Government and the Group has not been exposed to or benefit from any significant changes in risks and rewards as a result of that arrangement. In view of this, the directors of the Company are of the view that the non-monetary assets exchange arrangement has no commercial substance. Therefore, the carrying amounts of the exchanged-in assets is measured at the carrying amounts of the exchanged-out assets given up.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) Critical accounting estimates and judgements (Continued)

(b) Critical accounting estimates and key assumptions

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

(i) The measurement of ECL

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

When considering forward-looking information, the Group takes different economic scenarios into consideration. In 2021, the economic scenario weights of “benchmark”, “unfavourable” and “favourable” accounted for 60%, 20% and 20% respectively (2020: 50%, 25% and 25% respectively). The Group regularly monitors and reviews assumptions and parameters related to the calculation of ECL, including the risk of economic downturn, Gross Domestic Product (“GDP”), external market environment and changes in customer conditions. And the Group monitors and reviews assumptions relating to the calculation of the ECL.

In 2021 and 2020, the Group has taken into account the uncertainties caused by the COVID-19 pandemic and updated the relevant assumptions and parameters accordingly. The key macroeconomic parameters used in each scenario are listed below:

	The economic situation		
	Benchmark	Adverse	Favourable
2021			
Estimated GDP in China	<u>5.3%</u>	<u>4.5%</u>	<u>6.2%</u>
2020			
Estimated GDP in China	<u>5.5%</u>	<u>4.5%</u>	<u>7.0%</u>

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) Critical accounting estimates and judgements (Continued)

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

(ii) Income tax and Deferred income tax

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

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

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

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) Critical accounting estimates and judgements (Continued)

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

(iii) Impairment of long-term assets

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

(iv) Accounting estimation of goodwill impairment provision

The Group tests annually whether goodwill has suffered any impairment. The recoverable amount of asset groups or groups of asset groups is the higher of fair value less costs to sell and the present value of the future cash flows expected to be derived from them. These calculations require use of estimates (Note 4 (15)).

If management revises the growth rate that is used in the calculation of the future cash flows of asset groups or groups of asset groups, and the revised rate is lower than the current rate, the Group will need to recognise further impairment against goodwill.

If management revises the gross margin that is used in the calculation of the future cash flows of asset groups or groups of asset groups, and the revised gross margin is lower than the one currently used, the Group will need to recognise further impairment against goodwill.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) Critical accounting estimates and judgements (Continued)

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

(iv) Accounting estimation of goodwill impairment provision (Continued)

If management revises the pre-tax discount rate applied to the discounted cash flows, and the revised pre-tax discount rate is higher than the one currently applied, the Group would need to recognise further impairment against goodwill.

If the actual growth rate and gross margin is higher or the actual pre-tax discount rate is lower than management's estimates, the impairment loss of goodwill previously provided for is not allowed to be reversed by the Group.

(28) Significant changes in accounting policies

(a) *Interpretation No. 14 of Accounting Standards for Business Enterprises*

In 2021, the Ministry of Finance promulgated the "Notice on Printing and Distributing the Interpretation No. 14 of Accounting Standards for Business Enterprises" ("Cai Kuai [2021] No. 1) (hereafter "Interpretation No. 14"). According to the related requirements regarding the accounting treatment of Public-Private Partnership ("PPP") Project Contracts", the Group adjusted the accumulated impact amount for the first-time adoption this standard interpretation to the related items' beginning balances of the financial statements for the year ended 31 December 2021. The comparative financial statements for 2020 were not restated. There was not significant impact to the opening retained earnings of the Group and the Company's financial statements.

The relevant accounting treatments for the implementation of Interpretation No. 14 include:

- As a result of implementation of Interpretation No. 14, certain construction service revenue during the construction period and related contract assets (instead of intangible assets) are recognized, regarding the availability service fee, pipeline maintenance fee, etc. linked to a certain performance evaluation and charged from the recipient of the services as the conditions for satisfying the right to receive cash (or other financial assets) in a determinable amount.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(28) Significant changes in accounting policies (Continued)

(a) Interpretation No. 14 of Accounting Standards for Business Enterprises (Continued)

- Adjusting the operating concession assets, that should be treated as financial assets, from intangible assets to long-term receivables, the credit loss impairment loss is provisioned accordingly; and offsetting the operating income, amortization charges and the capitalized interests for the construction period relating to the concession rights which are accounted for as long-term receivables.
- Reclassifying the advance payments for construction costs and equipment purchases relating to the concession rights to be treated according to financial assets model in the future from the non-current assets to Advance to suppliers.

The major impact of the implementation of New Revenue Standards to the Group in 2021 included the revenue recognition of construction services of concession assets by RMB728 million, and the corresponding increase in construction service costs by RMB726 million and interest income by RMB130 million.

The impacts of changes in accounting policies on the assets and liabilities of the Group and the Company on 1 January 2021 are as follows:

Balance sheet items affected	The amounts affected 1 January 2021 The Group
Long-term receivables	1,839,658
Intangible assets	(1,876,336)
Other non-current assets	57,431
Accounts receivable	(73,342)
Deferred tax assets	12,739
Deferred tax liabilities	7,730
Advances to suppliers	47,580

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(28) Significant changes in accounting policies (Continued)

(b) Other changes in accounting policies

In 2021, the Ministry of Finance promulgated the Notice on Adjusting the Application Scope of the Provisions on the Accounting Treatment Regarding COVID-19-Related Rent Concessions (Cai Kuai [2021] No. 9), Q&A on Implementation of Accounting Standards for Business Enterprises in 2021. The financial statements for the year ended 31 December 2021 have been prepared in accordance with the above standards, circulars and Q&A; and there's no material impact on presentation of the financial statements of the Group and the Company.

3 TAXATION

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

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

(2) Preferential policies on corporate income tax

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

Entities	Enterprise income tax rate for 2021	Reason for the preferential tax policy
The Company	15%	According to The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control issued on 13 April 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Fuyang Capital Water Co., Ltd.	Yingnan Sewage Water Project, Yingdong Sewage projects Phase I: 15%	According to The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control issued on 13 April 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
	Other Sewage Water Projects: 12.5% & 0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2018 to 2020 for the first 3 years and reduction half for the next 3 years.

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

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3 TAXATION (Continued)

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

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

Entities	Enterprise income tax rate for 2021	Reason for the preferential tax policy
Gui Zhou Capital Water Co., Ltd.	15%	According to Notice of Guizhou Provincial State Administration of Taxation on Implementation of Preferential Tax Policy of Enterprises Relating to Development of Western Regions, (Qian Guo shui Han [2011] No.19) from 2011 to 2020. On 23 April 2020, the Ministry of Finance, the Taxation Administration, and the National Development and Reform Commission issued the Announcement [2020] No. 23, the Continuation of Preferential Tax Policy of Enterprises Relating to Development of Western Regions, stipulating that the implementation period of the policy was extended to 31 December 2030.
Xi'an Capital Water Co., Ltd.	Upgrading Sewage Water Projects: 0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2021 for the first 3 years and reduction half for the next 3 years.
	Other projects: 15 %	According to Notice of Shaanxi Provincial State Administration of Taxation on Issuing Measures for Review and Management of Preferential Tax Policy of Enterprises Relating to Development of Western Regions, (Notice [2010] No. 3) from 2011 to 2020. On 23 April 2020, the Ministry of Finance, the Taxation Administration, and the National Development and Reform Commission issued the Announcement [2020] No. 23, the Continuation of Preferential Tax Policy of Enterprises Relating to Development of Western Regions, stipulating that the implementation period of the policy was extended to 31 December 2030.
Hangzhou Tianchuang Capital Water Co., Ltd.	Upgrading Sewage Water Projects: 12.5%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2016 for the first 3 years and reduction half for the next 3 years.
	Other projects: 15 %	According to The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control issued on 13 April 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Tianjin Caring Technology Development Co., Ltd ("Caring Company")	15 %	In 2020, Caring Company has obtained the High-tech Enterprise Certificate (Certificate No. GR201812000566) issued by Tianjin Science and Technology Bureau, Tianjin Finance Bureau and Tianjin Taxation Bureau of the State Administration of Taxation. The certificate is valid for 3 years. According to relevant provisions of Article 28 of the Enterprise Income Tax Law of the People's Republic of China, the enterprise income tax rate applicable in 2021 is 15% (2020:15%).

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3 TAXATION (Continued)

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

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

Entities	Enterprise income tax rate for 2021	Reason for the preferential tax policy
Tianjin Water Recycling Co., Ltd.	25%	According to Cai Shui [2008] No. 47, since 1 January 2008, for revenues generated from products which were in line with national or industry standards, the taxable income amount is 90% of the total revenue.
Karamay Tianchuang Capital Water Co., Ltd.	12.5%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2017 for the first 3 years and reduction half for the next 3 years.
Linxia Capital Water Co., Ltd.	0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2018 for the first 3 years and reduction half for the next 3 years.
Bayannur Capital Water Co., Ltd.	Sewage water: 12.5%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2018 for the first 3 years and reduction half for the next 3 years.
	Recycled water: The taxable income is calculated at 90% of revenue	According to Cai Shui [2008] No. 47, since 1 January 2008, for revenues generated from products which were in line with national or industry standards, the taxable income amount is calculated at 90% of the revenue.
Yingshang Capital Water Co., Ltd.	12.5%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2018 for the first 3 years and reduction half for the next 3 years.
Dalian Oriental Chunliuhe Water Quality Purification Co., Ltd.	12.5%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2018 for the first 3 years and reduction half for the next 3 years.
Shandong Capital Environmental Protection Technology Consultant Co., Ltd. ("Shandong Company")	0%	According to Cai Shui [2009] No. 166, income from engagement in qualified industrial solid waste treatment projects and hazardous waste treatment projects is subject to exemption from enterprise income tax commence from 2019 for the first 3 years and reduction half for the next 3 years.
Shandong Tanchuang Environmental Protection Technology Development Co., Ltd	0%	According to Cai Shui [2009] No. 166, income from engagement in qualified industrial solid waste treatment projects and hazardous waste treatment projects is subject to exemption from enterprise income tax commence from 2019 for the first 3 years and reduction half for the next 3 years.

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3 TAXATION (Continued)

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

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

Entities	Enterprise income tax rate for 2021	Reason for the preferential tax policy
Hanshou Tianchuang Capital Water Co., Ltd.	0%	According to Cai Shui [2019] No. 67, income from rural drinking water safety projects is subject to exemption from enterprise income tax commence from 2019 for the first 3 years and reduction half for the next 3 years.
Jiuquan Capital Water Co., Ltd.	0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2019 for the first 3 years and reduction half for the next 3 years.
Huize Capital Water Co., Ltd.	15%	According to <i>The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control</i> issued on 13 April 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Huoqiu Capital Water Co., Ltd.	15%	According to <i>The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control</i> issued on 13 April 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Wuhan Tianchuang Capital Water Co., Ltd.	Honghu Sewage Treatment Plant: 15%	According to <i>The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control</i> issued on 13 April 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
	Yong'an, Xianning Sewage Treatment Plant: 12.5%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2018 for the first 3 years and reduction half for the next 3 years.
Honghu Tianchuang Capital Water Co., Ltd.	12.5%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2018 for the first 3 years and reduction half for the next 3 years.
Jiangsu Yonghui Resources Utilisation Co., Ltd. ("Jiangsu Yonghui")	0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2019 for the first 3 years and reduction half for the next 3 years.

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3 TAXATION (Continued)

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

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

Entities	Enterprise income tax rate for 2021	Reason for the preferential tax policy
Gaoyou Compro Environmental Resources Co., Ltd. (“Gaoyou Compro”)	12.5%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2017 for the first 3 years and reduction half for the next 3 years.
Changsha Tianchuang Environmental Protection Co., Ltd.	12.5%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2018 for the first 3 years and reduction half for the next 3 years.
Changsha Tianchuang Capital Water Co., Ltd.	0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2019 for the first 3 years and reduction half for the next 3 years.
Anhui Tianchuang Capital Water Co., Ltd.	0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2019 for the first 3 years and reduction half for the next 3 years.
Hefei Capital Water Co., Ltd.	0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2019 for the first 3 years and reduction half for the next 3 years.
Wendeng Capital Water Co., Ltd.	15%	According to <i>The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control</i> issued on 13 April 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Deqing Capital Water Co., Ltd.	0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2019 for the first 3 years and reduction half for the next 3 years.
Hebei Guojin Tianchuang Sewage Water Processing Co., Ltd.	0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2020 for the first 3 years and reduction half for the next 3 years.

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

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3 TAXATION (Continued)

(3) Tax rate policies for value-added tax

Pursuant the “2019 Circular on Deeply Reform of Adjustment of Tax Rate of Value Added Tax” (The General Administration of Customs of the State Administration of Taxation [2019] 39) jointly issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, where the original tax rate was applied as 16%, the tax rate was adjusted to 13%; where the original tax rate was applied as 10%, the tax rate was adjusted to 9%. The applicable tax rate of the Group’s VAT taxable income is adjusted accordingly.

According to the announcement of the State Administration of taxation on clarifying the collection and management of VAT on second hand car distribution and other issues, if the goods are not produced after professional treatment by means of landfill, incineration, etc., and the trustee belongs to the “professional and technical services” in the “modern services” provided in the “sales services, intangible assets, real estate notes” (Cai Shui [2016] 36), and the treatment fee charged by the trustee is subject to the VAT rate of 6%.

According to the announcement of the Simplified VAT Collection Rate Policy (Cai Shui [2014] No. 57) and relevant provisions issued by the Ministry of Finance and the State Administration of Taxation, the original announcement of the Application of the Low VAT Rate and the Simplified Method for The Imposition of VAT on Partial Goods (Cai Shui (2009) No. 9) article 2(3) and Article 3 “in accordance with the 6% VAT rate” were adjusted to “in accordance with the 3% VAT rate”, and the applicable vat tax rate of the Group was adjusted accordingly.

(4) Preferential tax policies for value-added tax

According to Cai Shui [2015] No. 78 “Catalogue of Preferential VAT on Products and Services for Comprehensive Utilisation of Resources” of the Ministry of Finance and the State Administration of Taxation, VAT is applicable to the Group’s sewage treatment and recycled water activities. 70% of the VAT paid by the sewage treatment and 50% of the VAT paid by the recycled water should be levied and refunded immediately.

On April 15, 2019, the Ministry of Finance and the State Administration of Taxation issued the “Announcement on Continued Implementation of Tax Preferential Policies for Rural Drinking Water Safety Projects” Cai shui [2019] No. 67, stipulating that from January 1, 2019 to December 31, 2020, in the tap water supply business of the Group, the tap water sales income obtained by providing rural residents with domestic water is exempt from value-added tax. On 15 March 2021, the Ministry of Finance and the State Administration of Taxation issued the “Announcement on Extending the Implementation Period of Partial Preferential Tax Policies” Cai Shui [2021] No. 6, which stipulates that the implementation period of the policy will be extended to 31 December 2023.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2021	31 December 2020
Cash on hand	13	14
Cash at bank	2,093,543	1,652,643
Other cash balances	45,931	10,989
	<u>2,139,487</u>	<u>1,663,646</u>
Including: Bank deposits in Hongkong, China	<u>8,964</u>	<u>7,987</u>

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

	31 December 2021	31 December 2020
Cash at bank and on hand	2,139,487	1,663,646
Less: Restricted bank deposits (i)	<u>(45,931)</u>	<u>(10,989)</u>
Cash listed in cash flow statement (Note 4(52))	<u>2,093,556</u>	<u>1,652,657</u>

- (i) The restricted bank deposits represent the deposit for the purpose of applying for unconditional, irrevocable bank letters of guarantee, as well as bank deposits frozen by litigation subsidiaries.

(2) Notes receivable

	31 December 2021	31 December 2020
Bank acceptance notes	<u>8,123</u>	<u>2,656</u>

(a) As at 31 December 2021, the Group has no pledged notes receivable.

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

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Notes receivable (Continued)

(b) As at 31 December 2021, notes receivable endorsed but unmatured were as follows:

	Derecognised	Not derecognised
Bank acceptance notes	13,772	–

In 2021, insignificant portion of the bank acceptance notes were endorsed and derecognised by subsidiaries Caring Company, Shandong Company and Gaoyou Compro. As at 31 December 2021, the notes receivable of the above subsidiaries had no balance.

(c) Provision for bad debts:

The Group does not have bank acceptance notes with an ECL assessed on an individual basis. And the Group considers that there is no significant credit risk in the bank acceptance notes.

(3) Accounts receivable

	31 December 2021	31 December 2020
Accounts receivable	2,503,473	2,127,612
Less: Provision for bad debts (c)	(177,923)	(168,529)
	<u>2,325,550</u>	<u>1,959,083</u>

The majority of the Group's business is carried out on credit, with credit periods of 30 to 90 days to customers generally.

(a) The ageing of accounts receivable according to date recorded is as follows:

	31 December 2021	31 December 2020
Within 1 year	2,123,978	1,853,362
1 to 2 years	190,992	139,324
2 to 3 years	71,371	69,336
3 to 4 years	56,836	45,704
4 to 5 years	41,665	10,538
Over 5 years	18,631	9,348
	<u>2,503,473</u>	<u>2,127,612</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Accounts receivable (Continued)

(b) As at 31 December 2021, the balance of accounts receivable from the top five debtors are as follows:

	Amount	Provision for bad debts	% of total balance
Accounts receivable from the top five debtors	1,729,445	(58,711)	69%

(c) Provision for bad debts

For the Group's accounts receivable, regardless of whether there is a significant financing component, the Group measures the loss provisions according to the expected credit loss throughout the lifetime.

(i) As at 31 December 2021, provision for bad debts by individual is analysed as below:

	Carrying amount	ECL rate	Provision	Reasons
Tianjin Water Authority Bureau	1,164,480	0.07%	(805)	1)
Qijing Sewage Company	231,753	22.25%	(51,555)	2)
Hangzhou City Water Facilities and River Protection Management Center	81,383	0.08%	(67)	1)
Xi'an Infrastructure Investment Group	52,974	0.09%	(49)	1)
Guiyang Water Authority Bureau	43,622	0.08%	(38)	1)
Jinghai Development Area Management Committee	31,569	52.88%	(16,693)	3)
Tianjin City Appearance Sanitation Construction Development Co. Ltd.	17,923	72.05%	(12,913)	4)
Tianjin Ziya Environmental Protection Industrial Park Co. Ltd.	16,797	100.00%	(16,797)	5)
Tianjin Shuangkou Municipal Solid Waste Landfill	13,776	100.00%	(13,776)	4)
Urad Front Banner Finance Bureau	10,928	100.00%	(10,928)	6)
Urad Rear Banner Finance Bureau	10,392	100.00%	(10,392)	6)
Zhejiang Xinsanyin Dyeing Co. Ltd.	5,733	65.03%	(3,728)	7)
Tianjin Goldin International Club Co. Ltd.	1,548	100.00%	(1,548)	8)
Inner Mongolia Zijin Zinc Industry Co., Ltd.	1,314	100.00%	(1,314)	9)
Tianjin City Investment Urban Resources Management Co., Ltd.	1,200	100.00%	(1,200)	10)
Tianjin Ziya Circular Economy Industry Investment Development Co., Ltd.	1,020	100.00%	(1,020)	11)
Tianjin Tianbao Municipal Administration Co. Ltd.	152	100.00%	(152)	12)
Total	1,686,564		(142,975)	

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

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Accounts receivable (Continued)

(c) Provision for bad debts (Continued)

- (i) As at 31 December 2021, provision for bad debts by individual is analysed as below: (Continued)

Notes:

- 1) As these clients are provincial and municipal governments or their representatives, whose ability to meet their contractual cash flow obligations may not be weakened even if there are adverse changes in the economic and business situation over a long period, then the receivables of the Group from Tianjin Water Authority Bureau, Hangzhou City Water Facilities and River Protection Management Center, from Guiyang Water Authority Bureau, and Xi'an Infrastructure Investment Group, have a lower credit risk. Based on the historical experience, the Group maintains continuous receiving and there was no actual bad debt loss. Therefore, the Group estimates that the lifetime ECL rate of the receivables is 0.07% to 0.09%.
- 2) Receivables of Qujing Capital Water Co., Ltd. from Qujing Sewage Company are composed between regular sewage treatment fee and tap water fee. As the receivables of regular sewage treatment fee and tap water fee have a longer collection period than ordinary government clients; indicating high credit risk, the Group estimates that the lifetime ECL rate is 22.25%.
- 3) Receivables of Tianjin Jinghai Capital Water Co., Ltd from Tianjin Jinghai Development Area Management Committee comprise conventional sewage treatment fees, whose repayment period is longer than that of general government customers, are under high credit risk. Considering factors such as the debtor's actual performance ability, historical repayment experience, and ageing, the Group presumes that it has defaulted and estimates that the lifetime ECL rate is 52.88%.

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

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Accounts receivable (Continued)

(c) Provision for bad debts (Continued)

- (i) As at 31 December 2021, provision for bad debts by individual is analysed as below: (Continued)

Notes: (Continued)

- 4) Receivables of the Company from Tianjin City Appearance Sanitation Construction and Development Co. Ltd. (“City Appearance Sanitation”) and Tianjin Shuangkou Municipal Solid Waste Landfill (“Tianjin Shuangkou Municipal Solid Waste Landfill”) comprise technical services fees. The book balance of accounts receivable of City Appearance Sanitation this year decreased, in order to collect partial accounts receivable arrears in 2020; while the remaining accounts receivable were aged for more than one year. The payment collection period exceeded that of the general government customer. There was no transaction between the Company and Tianjin Shuangkou Municipal Solid Waste Landfill during the last year. The receivables from them are under high credit risk. Taking into those account factors such as the debtor’s actual performance ability, historical repayment experience, and ageing, the Group presumes that they have defaulted and estimates that the lifetime ECL rates are 72.05% and 100%, respectively.
- 5) Receivables of the Company from Tianjin Ziya Environmental Protection Industrial Park Co. Ltd. comprise contract operation fees. The customer had no transactions with the Company and the receivable amount had high credit risk. Considering factors such as the debtor’s actual performance, historical repayment experience, and ageing, the Group presumes that they have defaulted and estimates that the lifetime ECL rate is 100%.
- 6) Receivables from Urad Front Banner Finance Bureau and Urad Rear Banner Finance Bureau comprise conventional sewage treatment fees, whose repayment period is longer than that of general government customers, are under high credit risk. Considering factors such as the debtor’s actual performance ability, historical repayment experience, and ageing, the Group presumes that it has defaulted and estimates that the lifetime ECL rate is 100%.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Accounts receivable (Continued)

(c) Provision for bad debts (Continued)

- (i) As at 31 December 2021, provision for bad debts by individual is analysed as below: (Continued)

Notes: (Continued)

- 7) Receivables of Tianjin Caring Technology Development Co., Ltd. from Zhejiang Xinsanyin Dyeing Co., Ltd. comprise construction of related facility and contract operation fees, whose repayment period is longer than that of general customers, are under high credit risk. Considering factors such as the debtor's actual performance, historical repayment experience, and ageing, the Group presumes that it has defaulted and estimates that the lifetime ECL rate is 65.03%.
- 8) Receivables of the Company from Tianjin Goldin International Club Co. Ltd. comprise contract operation fees. Tianjin Goldin International Club Co. Ltd. had no transactions with Tianjin Water Recycling Co., Ltd., whose receivables are under high credit risk. Taking into account that factors such as the debtor's actual performance, historical repayment experience, and ageing, the Group presumes that they have defaulted and estimates that the lifetime ECL rate is 100%.
- 9) Receivables of Inner Mongolia Zijin Zinc Industry Co., Ltd. comprise tap water supply fees, whose repayment period is longer than that of general customers, are under high credit risk. Considering the litigation disputes with debtor and factors such as the debtor's actual performance, historical repayment experience, and ageing, the Group presumes that it has defaulted and estimates that the lifetime ECL rate of them are 100.00%.
- 10) Receivables of the Company from Tianjin City Investment Urban Resources Management Co., Ltd. comprise rental fees. Tianjin City Investment Urban Resources Management Co., Ltd. had no transactions with the Company, whose receivables are under high credit risk. Considering the factors such as the debtor's actual performance ability, historical repayment experience, and ageing, the Group presumes that they have defaulted and estimates that the lifetime ECL rate of them is 100%.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Accounts receivable (Continued)

(c) Provision for bad debts (Continued)

- (i) As at 31 December 2021, provision for bad debts by individual is analysed as below: (Continued)

Notes: (Continued)

- 11) Receivables of the Company from Tianjin Ziya Circular Economy Industry Investment Development Co., Ltd., comprise sales income of Environment protection equipments. Tianjin Ziya Circular Economy Industry Investment Development Co., Ltd., had no transactions with the Company, whose receivables are under high credit risk. Considering the factors such as the debtor's actual performance ability, historical repayment experience, and ageing, the Group presumes that they have defaulted and estimates that the lifetime ECL rate of them is 100%.
- 12) Receivables of the Company from Tianjin Tianbao Municipal Administration Co. Ltd comprise contract operation fees. The ending balance in 2020 was RMB3.61 million, of which RMB3.46 million was collected or reversed. Considering the factors such as the debtor's actual performance ability, historical repayment experience, and ageing, the Group presumes that they have defaulted and estimates that the lifetime ECL rate is 100%.

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

	31 December 2021			31 December 2020		
	Carrying amount	Provision ECL rate	Amount	Carrying amount	Provision ECL rate	Amount
Group 3 – Government clients						
Within credit period	285,075	1.25%	(3,569)	145,974	0.05%	(80)
1-180 days overdue	116,013	3.04%	(3,526)	164,318	5.41%	(8,886)
>180 days overdue	145,469	10.31%	(14,993)	76,037	8.64%	(6,565)
	<u>546,557</u>		<u>(22,088)</u>	<u>386,329</u>		<u>(15,531)</u>
Group 4 – Other customers						
Within credit period	101,712	2.61%	(2,652)	67,571	6.85%	(4,631)
1-90 days overdue	65,920	2.68%	(1,768)	64,180	6.85%	(4,399)
>90 days overdue	102,720	8.22%	(8,440)	82,809	14.09%	(11,666)
	<u>270,352</u>		<u>(12,860)</u>	<u>214,560</u>		<u>(20,696)</u>

The provision for bad debts in 2021 amounted to RMB19 million, of which RMB3 million was collected or reversed. The ending balance was RMB178 million.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Advances to suppliers

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

	31 December 2021		31 December 2020	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	10,360	49%	25,199	96%
1 to 2 years	9,718	47%	262	1%
Over 2 years	756	4%	759	3%
	<u>20,834</u>	<u>100%</u>	<u>26,220</u>	<u>100%</u>

As at 31 December 2021, advances to suppliers of RMB10.5 million (31 December 2020: RMB1.0 million) with ageing over one year were mainly for supplemental project.

(b) *As at 31 December 2021, the top five advances to suppliers in respect of outstanding balance of the Group are analysed as follows:*

	Amount	% of total balance
Total amounts of advances to suppliers to the top five debtors in respect of outstanding balance	<u>3,905</u>	<u>19%</u>

(5) Other receivables

	31 December 2021	31 December 2020
Project guarantee deposits	8,173	6,846
VAT refund receivable	5,758	5,007
Others	<u>16,292</u>	<u>12,280</u>
	30,223	24,133
Less: Provision for bad debts	<u>(930)</u>	<u>(16)</u>
	<u>29,293</u>	<u>24,117</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

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

	31 December 2021	31 December 2020
Within 1 year	19,716	15,344
1 to 2 years	3,166	4,353
2 to 3 years	3,435	1,599
Over 3 years	<u>3,906</u>	<u>2,837</u>
	<u>30,223</u>	<u>24,133</u>

(b) As at 31 December 2021, other receivables at Stage 2 is analysed as follows:

Stage 2	Carrying amount	ECL rates	Provision for bad debts	Reason
Tianjin Installation Engineering Co., Ltd.	<u>3,128</u>	26.04%	<u>(814)</u>	(i)

- (i) As at 31 December 2021, the amount of other receivables from Tianjin Installation Engineering Co., Ltd., which are pre-deposit for workers in the civil construction and outdoor network contract of the NO.2 energy station in Houtai Scenic Area, were RMB3.13 million. The amount is overdue and the ageing is more than one year, whose ECL has a significant increment in credit risk since initial recognition. The Group evaluated the cash flow forecast that might be collected under different varying scenarios, recognising the difference of RMB0.8 million between the present value of the cash flow that might be collected and the cash flow receivable from contract as provision for bad debts.

As at 31 December 2020, the Group did not have other receivables at Stage 2.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

(c) As at 31 December 2021 and 31 December 2020, other receivables provisioned bad debts by group were all belong to Stage 1. The analysis is as below:

	31 December 2021			31 December 2020		
	Carrying amount	Provision Amount	%	Carrying amount	Provision Amount	%
Group 5 – Project deposit						
Within 1 year	4,228	(43)	1.03%	3,631	(2)	0.05%
1-2 years	1,610	(17)	1.03%	879	(0)	0.05%
2 to 3 years	60	(1)	1.03%	61	(0)	0.05%
Over 3 years	2,275	(23)	1.03%	2,275	(1)	0.05%
Subtotal	<u>8,173</u>	<u>(84)</u>		<u>6,846</u>	<u>(3)</u>	
Group 6 – Other						
Within 1 year	9,730	(24)	0.24%	6,706	(7)	0.10%
1-2 years	384	(1)	0.24%	3,474	(3)	0.10%
2 to 3 years	1,420	(3)	0.24%	1,538	(2)	0.10%
Over 3 years	1,630	(4)	0.24%	562	(1)	0.10%
Subtotal	<u>13,164</u>	<u>(32)</u>		<u>12,280</u>	<u>(13)</u>	
Total	<u>21,337</u>	<u>(116)</u>		<u>19,126</u>	<u>(16)</u>	

(d) As at 31 December 2021, the changes in other receivables' provision of the Group were not significant.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

(e) As at 31 December 2021, other receivables from the top five debtors in respect of outstanding balance are analysed as below:

	Nature	Amount	Ageing	% of total	Provision for bad debts
Hangzhou Municipal Engineering Group Co., Ltd.	Project receivable	7,576	Within 1 year	25.07%	(5)
Tianjin Installation Engineering Co., Ltd.	Deposits of migrant workers' wages	1,955	2 to 3 years	6.47%	(508)
Tianjin State Taxation Bureau	VAT receivable	1,530	Within 1 year	5.06%	–
Tianjin Installation Engineering Co., Ltd.	Deposits of migrant workers' wages	1,173	1-2 years	3.88%	(306)
Xianning City Urban Drainage Management Office	VAT receivable	1,075	Within 1 year	3.56%	–
State Grid Tianjin Electric Power Co., Ltd.	Project deposits	1,000	Over 3 years	3.31%	(1)
		<u>14,309</u>		<u>47.35%</u>	<u>(820)</u>

(f) As at 31 December 2021, the Group's analysis of government grants confirmed by the amount receivables is as follows:

	Government grants program	Amount	Ageing
The Company	VAT refund	1,530	Within 1 year
Wuhan Tianchuang Capital Water Co., Ltd.	VAT refund	1,075	Within 1 year
Deqing Capital Environmental Protection Water Co., Ltd.	VAT refund	848	Within 1 year
Tianjin Xiqing Tianchuang Environmental Protection Co., Ltd.	VAT refund	740	Within 1 year
Qijing Capital Water Co., Ltd.	VAT refund	688	Within 1 year
Tianjin Water Recycling Co., Ltd.	VAT refund	553	Within 1 year
Baoying Capital Water Co., Ltd.	VAT refund	240	Within 1 year
Wendeng Capital Water Co., Ltd.	VAT refund	83	Within 1 year
Anguo Capital Water Co., Ltd.	VAT refund	1	Within 1 year
		<u>5,758</u>	

Based on situation of the previous year's collection, the VAT refund is expected to be fully collected by 2022.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Inventories

(a) *The Group's inventory is classified as follows:*

	31 December 2021			31 December 2020		
	Gross balance	Provision for decline in the value of inventories	Net book value	Gross balance	Provision for decline in the value of inventories	Net book value
Raw materials	14,036	–	14,036	11,868	–	11,868
Spare parts and low-cost consumables	4,472	–	4,472	474	–	474
Finished goods	3,320	–	3,320	5,118	–	5,118
	<u>21,828</u>	<u>–</u>	<u>21,828</u>	<u>17,460</u>	<u>–</u>	<u>17,460</u>

(7) Other current and non-current assets

	31 December 2021	31 December 2020
VAT to be offset	20,865	76,774
Anguo Sewage Assets(a)	33,065	33,065
Input VAT to be verified	21,227	2,970
Income tax prepaid	<u>8,804</u>	<u>2,484</u>
	83,961	115,293
Less: Provision for impairment of other current assets(a)	<u>(33,065)</u>	<u>(33,065)</u>
	<u>50,896</u>	<u>82,228</u>

(a) The Group conducted an impairment assessment of the relevant assets of Anguo sewage processing plant in previous years and made full amount provision for assets impairment.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Long-term receivables and non-current assets due within one year

	31 December 2021	31 December 2020
Receivables from concession rights (a)/(e)	2,037,524	–
Receivables from Tianjin Water Authority Bureau (b)	1,757,504	1,431,761
Receivables from the Tianjin vehicle toll collection office for roads constructed using loans (c)	216,552	236,592
Receivables from Bayannur Finance Bureau (d)	<u>81,673</u>	<u>–</u>
	4,093,253	1,668,353
Less: Bad debt provision	<u>(40,235)</u>	<u>(902)</u>
	4,053,018	1,667,451
Less: Current portion of long-term receivables	<u>(241,114)</u>	<u>(20,049)</u>
	<u><u>3,811,904</u></u>	<u><u>1,647,402</u></u>

(a) According to the Service concession right agreement, the Group has the right to collect a determinable amount of cash from the recipients of the services for the concession service period. Receiving such consideration is recognized as a long-term receivable upon completion of the construction of the assets of the concession project in accordance with Interpretation No. 14; and the balance of the long-term receivables and the provision for bad debts as at 1 January 2021 has been adjusted in accordance with the requirements of Interpretation No.14 (Note 4(18)). The long-term receivables are received for a period of 10 to 30 years and the amortised cost is determined based on the effective interest rate. Since the customers are basically government customers other than the government customers of provincial capitals and municipalities directly under the central government, the expected credit loss rate for the aforesaid long-term receivables is 1.83%, which is consistent with expected credit loss rate as applied for the remaining accounts receivable with government clients except those in provincial capitals and municipalities. The balance of loss provision is RMB37.2 million.

(b) Based on the historical collection experience and the expectation of future payment scheme, the Group has classified the present value of receivables of which collection is expected to be exceeding 12 months as long-term receivables. The expected credit loss rate for the aforesaid long-term receivables is 0.07%, which is consistent with expected credit loss rate as applied for the remaining accounts receivable with Tianjin Water Authority Bureau. The balance of loss provision is RMB1.2 million.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Long-term receivables and non-current assets due within one year (Continued)

- (c) Receivables from toll road concession represent the amortised cost, using effective interest method, calculated with reference to a guaranteed minimum future traffic flow over the concession period. Tianjin Municipal Transportation Commission is a public institution under the Tianjin municipal government, which has low credit risk. According to historical experience, the Company can collect the receivables within the agreed period. Therefore, the Company estimates that the ECL rate of this receivable item is 0.14%. The balance of loss provision is RMB0.3 million.
- (d) With the influence of Coronavirus Disease 2019, the actual collection of receivables from Bayannur Finance Bureau and Bayannur District Finance Bureau were significantly below expectation. Based on the historical collection experience and the expectation of future payment scheme, the Group has classified the present value of receivables of which collection is expected to be exceeding 12 months as long-term receivables. The expected credit loss rate for the aforesaid long-term receivables is 1.83%, which is consistent with expected credit loss rate as applied for the remaining accounts receivable with government clients except those in provincial capitals and municipalities. The balance of loss provision is RMB1.5 million.
- (e) The current portion of bank borrowings of RMB395 million were pledged by the concession right of “Jiuquan Suzhou the first and the second Sewage Treatment Plant PPP Project” (Note 4(26)(b)). The concession right was accounted as an intangible asset in 2020 and prior years. In 2021, according to the Interpretation No. 14 of Accounting Standards for Business Enterprises, it is accounted for as long-term receivables. As at 31 December 2021, the carrying amount of long-term receivable, including non-current assets due within one year, is RMB584 million (31 December 2020: RMB534 million) (Note 4(14)(a)).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Long-term equity investments

	31 December 2021	31 December 2020
Investments in associates (a)	217,358	217,358
Less: Provision for impairment of long-term equity investments (b)	<u>(22,358)</u>	<u>(22,358)</u>
	<u>195,000</u>	<u>195,000</u>

(a) *Investment in associate*

	Type	Place of registration	Registered capital	Shareholding/ Voting rights (%)
Tianjin International Machinery Co., Ltd. (International Machinery)	Limited company	Tianjin	120,000	27.50%
Tianjin Bihai Sponge City Co., Ltd. (Tianjin Bihai)	Limited company	Tianjin	650,000	30.00%

The movements of the Group's investment in International Machinery are as follows:

	Initial investment cost	31 December 2020	31 December 2021	Provision for impairment at the end of the year
International Machinery (i)	33,000	–	–	(22,358)
Tianjin Bihai (ii)	<u>195,000</u>	<u>195,000</u>	<u>195,000</u>	<u>–</u>
	<u>228,000</u>	<u>195,000</u>	<u>195,000</u>	<u>(22,358)</u>

- (i) International Machinery is a Sino-foreign joint venture registered in the Tianjin Economics Development Area. The businesses of International Machinery include research and development, production and sale of valve and actuating device, heater exchanger and the whole set, environment protection equipment, and general mechanical equipment.
- (ii) Tianjin Bihai is a limited liability company registered in Tianjin. The business in Tianjin Bihai include constructions and operations of water treatment projects, procurement and maintenance of water treatment equipment, ecological maintenance; tourism development, ecological management, construction, operation and management of sponge city project, and construction and operation of municipal engineering. The Company, together with Origin Water Technology Co., Ltd. and Jiu'an Investment Group Co., Ltd., formed a consortium to win the bid for the construction PPP project of the sponge city in Jefang South Road area, Tianjin. After that, Tianjin Bihai was established on 30 July 2018. The Group invested RMB195 million and holds 30% equity interest. As of 31 December 2021, Tianjin Bihai was still in the construction period. The construction expected to be completed and put into operation in 2022.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Long-term equity investments (Continued)

(b) Provision for impairment of long-term equity investments

	31 December 2020	Additions	Disposals	31 December 2021
International Machinery	22,358	–	–	22,358

(10) Other equity instruments investment

	31 December 2021	31 December 2020
Equity of unlisted company Tianjin Beifang Rencaigang Company Ltd.		
– Cost	2,000	2,000
– Accumulated fair value changes	–	–
	<u>2,000</u>	<u>2,000</u>

Other equity instruments investment is the unlisted equity investments of Tianjin Beifang Rencaigang Company Limited held by the Group and the shareholding ratio is 6.10%. The Group does not participate in or influence the financial and operational decisions of Tianjin Beifang Rencaigang Company Limited in any way. Therefore, the Group has no significant influence on the above-mentioned invested company and accounts for it as other equity instruments.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Fixed assets

	Buildings and constructions	Machinery and equipment	Motor vehicles and others	Total
Cost –				
31 December 2020	635,156	528,136	110,459	1,273,751
Business combination involving enterprise not under common control (Note 5(2))	118,128	102,284	2,564	222,976
Transfers from construction in progress (Note 4(12))	2,949	7,572	239	10,760
Other additions in the current year	–	5,167	6,728	11,895
Disposals in the current year	(4,028)	(3,647)	(7,073)	(14,748)
31 December 2021	752,205	639,512	112,917	1,504,634
Accumulated depreciation –				
31 December 2020	(161,631)	(243,836)	(58,789)	(464,256)
Additions in the current year	(22,310)	(46,031)	(8,590)	(76,931)
Disposals in the current year	345	2,977	6,504	9,826
31 December 2021	(183,596)	(286,890)	(60,875)	(531,361)
Net book value –				
31 December 2021	568,609	352,622	52,042	973,273
31 December 2020	473,525	284,300	51,670	809,495

- (a) In 2021, the Group's depreciation expenses of RMB65 million (2020: RMB44 million) have been included in cost of sales and RMB10 million (2020: RMB10 million) in general and administrative expenses in 2021.
- (b) As at 31 December 2021, the certificate of title to outsourced assets included in fixed assets, land use rights with cost of RMB104 million and carrying amount of RMB172 million (31 December 2020: cost of RMB172 million and carrying amount of RMB109 million) and non-monetary exchange assets with cost of RMB8 million and carrying amount of RMB12 million (31 December 2020: cost of RMB12 million and carrying amount of RMB9 million) has yet to be or is in the process of being transferred to the Group. As these assets are supported by legal sale and purchase agreements, the management of the Company believes that the titles will be received in due course without any legal barrier or additional significant cost.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Fixed assets (Continued)

- (c) As at 31 December 2021, fixed assets with cost of RMB364 million (31 December 2020: RMB190 million) and a carrying amount of RMB321 million (31 December 2020: RMB185 million) were used as collateral for long-term borrowings of RMB347 million (31 December 2020: RMB138 million) (Note 4(26)(c)).
- (d) On 26 January 2021, the Group acquired 100% of the equity interests in Jiangsu Yonghui and Gaoyou Compro from third parties. The total of the fair values of acquired fixed assets on acquisition date was RMB223 million (cost of RMB261 million and accumulated depreciation of RMB38 million).

(12) Construction in progress

Name	Budgeted amount	31	Increase	Transfer to fixed assets	31	Percentage to total budget	Percentage of completion	Accumulated capitalised interests	Inc:	Capitalisation rate for the year	Source of funds
		December 2020	in the year		December 2021				Current year capitalised interests		
Shandong – Yishui and Tancheng City Solid Waste Treatment project	572,986	3,964	13,199	(1,850)	15,313	72%	72%	12,869	8,905	5.15%	Loans and own funds
Self-raised fund Shandong – Dongying Transit Station Project	20,539	–	5,896	–	5,896	29%	29%	–	–	–	Loans and own funds
Jiayuan – Xinchuang Distributed Photovoltaic Power Generation Project	22,000	5,174	4,066	(8,895)	345	47%	47%	–	–	–	Loans and own funds
Self-raised fund Other projects		721	7,400	(15)	8,106			498	–	–	Loans and own funds
Total		9,859	30,561	(10,760)	29,660			13,367	8,905		

- (a) As at 31 December 2021, the factory and equipment under construction with net book value totalling RMB15 million (31 December 2020: RMB3 million) were pledged as collateral for the Group's bank borrowings of RMB145 million (31 December 2020: RMB138 million) (Note 4(26)(c)).
- (b) As at 31 December 2021, the Group had no provision for construction in progress (31 December 2020: Nil).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Right-of-use assets

	Machinery and equipment
Cost	
31 December 2020	–
Additions in the year	<u>11,648</u>
31 December 2021	<u>11,648</u>
Accumulated depreciation	
31 December 2020	–
Changes for the year	<u>(2,627)</u>
31 December 2021	<u>(2,627)</u>
Net book value	
31 December 2021	<u>9,021</u>
31 December 2020	<u>–</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Intangible assets

	Concession rights	Land use rights	Technical know-how and software	Total
Cost				
31 December 2020	15,054,895	86,994	12,367	15,154,256
Changes in accounting policies	(2,014,259)	–	–	(2,014,259)
1 January 2021	13,040,636	86,994	12,367	13,139,997
Business combination involving enterprise not under common control	–	38,387	510	38,897
Increases in the current year	745,413	21,836	1,791	769,040
31 December 2021	13,786,049	147,217	14,668	13,947,934
Accumulated depreciation				
31 December 2020	(3,055,644)	(9,387)	(8,773)	(3,073,804)
Changes in accounting policies	137,923	–	–	137,923
1 January 2021	(2,917,721)	(9,387)	(8,773)	(2,935,881)
Changes for the year	(547,589)	(2,177)	(962)	(550,728)
31 December 2021	(3,465,310)	(11,564)	(9,735)	(3,486,609)
Provision for impairment loss				
31 December 2020	(80,634)	–	–	(80,634)
Increases in the current year (v)	(49,000)	–	–	(49,000)
31 December 2021	(129,634)	–	–	(129,634)
Net book value				
31 December 2021	10,191,105	135,653	4,933	10,331,691
31 December 2020	11,918,617	77,607	3,594	11,999,818

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Intangible assets (Continued)

(a) Concession rights

(i) The movements of cost

Project name	31 December 2020	Changes in Accounting policies	1 January 2021	Increase in the year	31 December 2021	Accumulated	Accumulated
						capitalised interests as of 31 December 2020	capitalised interests as of 31 December 2021
Xi'an- Dengjiacun and Beishiqiao upgrading and deodorant projects	856,168	-	856,168	343,930	1,200,098	1,615	10,883
Tianjin Xiqing District Dasi sewage water processing plant TOT project	-	-	-	197,020	197,020	-	-
Jieshou sewage operation PPP project (second batch and third batch)	428,022	(383,318)	44,704	91,030	135,734	8,429	23,877
Guojin-Gaocheng district water environment upgrading PPP project	242,019	-	242,019	47,186	289,205	998	3,210
Huize-Huize urban sewage water processing facilities construction project	47,383	(32,271)	15,112	41,990	57,102	755	800
Wendeng sewage water processing plant upgrading project	162,128	-	162,128	19,730	181,858	-	63
Other project	13,319,175	(1,598,670)	11,720,505	4,527	11,725,032	62,387	63,010
Total	15,054,895	(2,014,259)	13,040,636	745,413	13,786,049	74,184	101,843

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Intangible assets (Continued)

(a) Concession rights (Continued)

- (ii) As at 31 December 2021, concession right with cost of RMB584 million (31 December 2020: RMB770 million) is still under the construction period. The Group adopted the discounted cash flow model to main intangible assets under the construction which are not yet ready for their intended use. The estimated price is based on price in the concession right agreements. Other main assumptions are as follows:

Name of project	31 December 2021	Forecast period growth rate	Stable period growth rate	Discount rate
Xi'an – Dengjiacun and Beishiqiao upgrading and deodorant projects	378,368	14.24%	2.5%	11%
Jieshou sewage operation PPP project (second batch and third batch)	91,030	5.60%	2.5%	11%
Guojin – Gaocheng district water environment upgrading PPP project	89,531	14.40%	2.5%	11%
Wendeng sewage water processing plant upgrading project	19,730	5.91%	2.5%	11%
	<u>578,659</u>			

- (iii) As at 31 December 2021, certain concession rights with net book value of RMB2,961 million (cost of RMB4,756 million) (31 December 2020: net book value of RMB2,508 million (cost of RMB3,241 million)) have been pledged as securities for bank borrowing of RMB1,592 million (31 December 2020: RMB1,211 million) (Note 4(26)(b)).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Intangible assets (Continued)

(a) *Concession rights* (Continued)

- (iv) The amortisation period of concession rights ranges from 8 to 30 years.
- (v) The Company conducted an impairment assessment of the intangible assets of loss-making subsidiary, which is the concession right. As of 31 December 2021, the net asset value with signs of impairment was RMB1,807 million (of which the original value was RMB2,118 million, the cumulative amortization was RMB233 million, and the cumulative impairment provision was RMB78 million). As the final water processing price negotiated by Anhui Tianchuang Water Co., Ltd. (“Anhui Yuwan”) and the Government was lower than expected and the profitability of the project was reduced. Comparing the fair value of the relevant asset group portfolio less disposal expenses and the present value of the estimated future cash flows, the Group used the present value of the estimated future cash flows to determine its recoverable amount, and made an impairment provision of RMB49 million for the concession assets of Anhui Yuwan in 2021.

The main assumptions applied in calculating discounted future cash flows in 2021 are as follows:

The growth rate of forecast period	0% – 44%
Gross profit margins	(16%) – 44%
The pre-tax discount rate	8.49%

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Intangible assets (Continued)

(b) Land use rights

As at 31 December 2021, land use rights with net book value of RMB80 million (cost of RMB86 million) (31 December 2020: net book value of RMB58 million (cost of RMB62 million)) have been mortgaged as collateral for bank borrowing of RMB300 million (31 December 2020: RMB311 million) (Note 4(26)(c)).

As at 31 December 2021, the land use right included assets exchanged for non-monetary assets with an original cost of RMB5 million and a net book value of RMB3 million (31 December 2020: original cost of RMB5 million and net book value of RMB4 million). For which, the certificates of legal title have yet to be or are in the process of being transferred to the Group. As these assets are supported by legal sale and purchase agreements, the management of the Company believes that the titles will be received in due course without any legal barrier or additional significant cost.

(c) In 2021, the amounts of amortization charged to cost of sales and administrative expenses were RMB545 million (31 December 2020: RMB516 million) and RMB6 million (31 December 2020: RMB3 million), respectively.

(d) The Research and development expenses of the Group in 2021 are all related to the research and development of the production process of environmental protection equipment, which are all included in profit or loss when incurred.

(e) On 26 January 2021, the Group acquired 100% of the equity interests in Jiangsu Yonghui and Gaoyou Compro from third parties. The fair value of equity interests on acquisition date was RMB39 million (cost of RMB40 million and accumulated amortisation of RMB0.7 million).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Goodwill

	31 December 2020	Increase in the current year	Decrease in the current year	31 December 2021
Goodwill –				
Jiangsu Yonghui	–	270,396	–	270,396
Gaoyou Compro	–	234,724	–	234,724
	–	505,120	–	505,120
Less: Provision for impairment –				
Jiangsu Yonghui	–	(53,092)	–	(53,092)
Gaoyou Compro	–	(46,567)	–	(46,567)
	–	(99,659)	–	(99,659)
Net –	–	405,461	–	405,461

On 26 January, 2021, the company acquired 100% equity interests of Jiangsu Yonghui and Gaoyou Compro respectively from third parties, and obtained 100% equity. The consideration of the acquisitions were RMB350 million and RMB383 million, respectively. On the acquisition date, the fair values of the identifiable net assets of Jiangsu Yonghui and Gaoyou Compro were RMB80 million and RMB148 million. Therefore, the Group recognized the amount of goodwill of RMB270 million and RMB235 million, respectively. Asset group corresponding to goodwill is included in all other segments (Note 7).

When testing the goodwill for impairment, the Group compared the carrying amount (Note 7) of relevant asset groups or groups of asset groups (including goodwill) and the recoverable amount, an impairment loss is recognised for the amount by which the assets' carrying amount exceeds their recoverable amount (Note 4(46)).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Goodwill (Continued)

In 2021, following the continuous impact of the COVID-19 and related prevention and control measures, the volume of sales and unit prices of Jiangsu Yonghui and Gaoyou Compro within the Group fell as some clients in their business operations. For impairment assessment, the Group used the estimate of present value of future cash flows to determine the recoverable amount and made a provision of RMB100 million for impairment losses. The Group engaged an external appraiser, Jiangsu China Enterprise Appraisals Zhongtian Asset Co., Ltd., to issue the Su Zhongzi Appraisal Report (2022) No. 9014 and the Su Zhongzi Appraisal (2022) No. 9015 appraisal report on the impairment appraisal of goodwill.

The Group determines the growth rates and the gross margins based on its past experience and forecast on future market development. The forecast period growth rates are built on the five-year budget approved by the management, and the terminal growth rates are the weighted average growth rates applied by management to extrapolate cash flows beyond the forecast period, which are consistent with those estimated in the authoritative industry reports, and do not exceed the long-term average growth rates of each product. The discount rates used by the management are the pre-tax interest rates that are able to reflect the risks specific to the related asset groups or groups of asset groups.

The main assumptions applied in calculating discounted future cash flows in 2021 are as follows:

	Jiangsu Yonghui	Gaoyou Compro
Forecast period growth rates	0% – 53.74%	0% – 63.94%
Terminal growth rates	0%	0%
Gross margins	38.10% – 42.55%	37.61% – 42.37%
Pre-tax discount rates	11.32%	12.36%

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Deferred tax assets and deferred tax liabilities

(a) *Deferred tax assets before offsetting*

	31 December 2021		31 December 2020	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Provision for credit impairment	195,841	48,682	145,668	36,417
Sewage water processing services on installment	133,024	25,780	61,224	15,306
Deductible tax losses	29,339	5,275	–	–
Accrued expenses	20,901	4,180	26,870	6,717
Recognition of concession gains in financial asset model	19,671	4,918	–	–
Accrued liabilities	14,075	2,111	19,557	2,934
Lease liabilities	9,345	1,402	–	–
	<u>422,196</u>	<u>92,348</u>	<u>253,319</u>	<u>61,374</u>
Including:				
Expected to be recovered within one year (inclusive)		14,812		9,237
Expected to be recovered after one year		<u>77,536</u>		<u>52,137</u>
		<u>92,348</u>		<u>61,374</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(b) Unrecognised deferred tax assets

- (i) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets are analysed as follows:

	31 December 2021	31 December 2020
Deductible temporary difference – provision for assets impairment	287,876	144,220
Deductible losses	145,662	77,775
Deductible temporary difference – credit impairment	23,248	23,779
Share-based payment	7,370	–
Accrued liabilities	5,391	7,461
	<u>469,547</u>	<u>253,235</u>

- (ii) Deductible losses that are not recognised as deferred tax assets will expire in the following years:

	31 December 2021	31 December 2020
2021	–	5,124
2022	2,561	3,466
2023	8,503	11,061
2024	31,060	32,774
2025	22,614	25,350
2026	80,924	–
	<u>145,662</u>	<u>77,775</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(c) *Deferred tax liabilities before offsetting*

	31 December 2021		31 December 2020	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Amortization of intangible assets	604,604	151,151	545,687	136,422
Business combinations involving enterprises not under common control	100,536	25,134	51,146	12,786
Recognition of concession gains in financial asset model	69,328	15,136	–	–
Right-of-use asset	9,021	1,353	–	–
	<u>783,489</u>	<u>192,774</u>	<u>596,833</u>	<u>149,208</u>
Including:				
Expected to be recovered within one year (inclusive)		8,528		5,123
Expected to be recovered after one year		<u>184,246</u>		<u>144,085</u>
		<u>192,774</u>		<u>149,208</u>

(d) *The net balances of deferred income tax assets and deferred income tax liabilities after offsetting are shown below:*

	31 December 2021		31 December 2020	
	Set-off amount	After offsetting the balance	Set-off amount	After offsetting the balance
Deferred income tax assets	(73,080)	19,268	(48,409)	12,965
Deferred income tax liabilities	<u>(73,080)</u>	<u>119,694</u>	<u>(48,409)</u>	<u>100,799</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(17) Other non-current assets

	31 December 2021	31 December 2020
Input VAT to be deducted offset	260,868	193,783
Contract assets (a)	172,983	–
Prepayments for construction projects	5,213	108,316
Land remised fund (b)	–	20,454
Others	14,985	8,418
	<u>454,049</u>	<u>330,971</u>
Less: Provision for impairment of contract assets	<u>(3,160)</u>	<u>–</u>
	<u>450,889</u>	<u>330,971</u>

(a) As at 31 December 2021, The second sewage treatment plant of “the subsidiary in Huoqiu with net book value of RMB164 million (cost of RMB167 million) (31 December 2020: Nil) had been pledged as collateral for the bank borrowings of RMB122 million (31 December 2020: RMB35 million) (Note 4(26)(b)). The concession right was accounted for as an intangible asset in 2020 and prior years (Note 4(14)(a)).

(b) In November 2020, Shandong Capital Environmental Protection Technology Development Co., Ltd., a subsidiary of the Group, paid a land transfer deposit of RMB20 million to the Tancheng County Natural Resources and Planning Bureau. The amount will eliminate the future land use right transfers considerations, as agreed. As a result, the Group presented it as other non-current assets on 31 December 2020. The Group had already completed the land use right certificate and paid the remaining land transfer fee in 2021. Therefore, the amount had offset with the land use right transfer costs on 31 December 2021.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(18) Provision for asset impairment and loss

	31 December 2020	Changes in accounting policies	1 January 2021	Reclassification	Increase in the current year	Reversal in the current year	31 December 2021
Provision for accounts receivable	168,529	–	168,529	(6,132)	18,986	(3,460)	177,923
Including: Individual provision for bad debts	132,302	–	132,302	218	13,915	(3,460)	142,975
Group provision for bad debts	36,227	–	36,227	(6,350)	5,071	–	34,948
Provision for other receivables	16	–	16	–	914	–	930
Provision for long-term receivables (including other non-current assets due with one year) (i)	902	53,785	54,687	6,132	623	(21,207)	40,235
Subtotal	169,447	53,785	223,232	–	20,523	(24,667)	219,088
Provision for intangible assets	80,634	–	80,634	–	49,000	–	129,634
Provision for goodwill	–	–	–	–	99,659	–	99,659
Provision for other non-current assets	–	–	–	–	3,160	–	3,160
Provision for other current assets	33,065	–	33,065	–	–	–	33,065
Provision for Long-term equity investments	22,358	–	22,358	–	–	–	22,358
Subtotal	136,057	–	136,057	–	151,819	–	287,876

- (i) According to the Interpretation No. 14 of Accounting Standards for Business Enterprises (Note 2(28)), the Group recognised the cumulative effect of initially applying the standard as an adjustment to the opening balance of long-term receivables and non-current assets due within one year in 2021. The Group made a provision of RMB54 million for impairment losses.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Short-term borrowings

	31 December 2021	31 December 2020
Unsecured	115,823	–
Guaranteed (a)	<u>30,029</u>	<u>–</u>
	<u>145,852</u>	<u>–</u>

- (a) As at 31 December 2021, bank borrowings of RMB30 million (31 December 2020: Nil) are guaranteed by the Company for Shandong Company.
- (b) As at 31 December 2021, the weighted average interest rate of short-term borrowings is from 3.70% to 4.90% per annum (31 December 2020: Nil).
- (c) As at 31 December 2021, the balance of short-term borrowings included interest expense accrued on an accrual basis of RMB0.03 million (31 December, 2020: Nil).

(20) Accounts payables

	31 December 2021	31 December 2020
Accounts payables (a)	<u>429,522</u>	<u>294,973</u>

- (a) As at 31 December 2021, accounts payables are mainly for inventory purchase. Accounts payables aged over one year are RMB101 million (31 December 2020: RMB89 million), mainly representing payables for source water of RMB57 million from the subsidiary Qujing Capital Water Co., Ltd., of which payment is made in accordance with the requirements of Qujing Water Conservancy and Hydropower Development and Investment Co., Ltd., and for project of RMB27 million from the subsidiary Tianjin Water Recycling Co., Ltd.. Since the pipeline connection project has not been completed, the payment has not been finalised.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(20) Accounts payables (Continued)

(b) The ageing analysis of accounts payable based on the date of entry is as follows:

	31 December 2021	31 December 2020
Within 1 year	328,642	205,716
Over 1 year	<u>100,880</u>	<u>89,257</u>
	<u>429,522</u>	<u>294,973</u>

(21) Contract liabilities

	31 December 2021	31 December 2020
For pipeline connection service	515,301	509,271
For hazard waste treatment	38,017	3,145
Others	<u>14,364</u>	<u>14,994</u>
	<u>567,682</u>	<u>527,410</u>

In 2021, the amount of RMB212 million (2020: RMB236 million) which is included in the beginning balance of contract liabilities has been recognised into revenue. The Group expects that contract liabilities will be carried forward to recognise revenue through normal operating processes, and therefore will be recognized as current liabilities.

(22) Employee benefits payable

	31 December 2021	31 December 2020
Short-term employee benefits payable (a)	104,238	85,362
Defined contribution plans payable (b)	<u>330</u>	<u>258</u>
	<u>104,568</u>	<u>85,620</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Employee benefits payable (Continued)

(a) Short-term employee benefits payable

	31 December 2020	Increase in the current year	Decrease in the current year	31 December 2021
Wages and salaries, bonuses, allowances and subsidies	75,956	305,876	(288,589)	93,243
Staff welfare	11	16,682	(16,542)	151
Social security contributions	112	23,639	(23,453)	298
Including: Medical insurance	112	22,128	(21,952)	288
Work injury insurance	–	788	(785)	3
Maternity insurance	–	723	(716)	7
Housing funds	112	51,499	(51,572)	39
Labor union funds and employee education funds	9,171	8,696	(7,360)	10,507
	<u>85,362</u>	<u>406,392</u>	<u>(387,516)</u>	<u>104,238</u>

(b) Defined contribution plans payable

	31 December 2020	Increase in the current year	Decrease in the current year	31 December 2021
Basic pensions	128	37,548	(37,347)	329
Unemployment insurance	4	1,096	(1,099)	1
Annuity	126	12,230	(12,356)	–
	<u>258</u>	<u>50,874</u>	<u>(50,802)</u>	<u>330</u>

The Group pays pension insurance premiums and unemployment insurance premiums to the relevant agencies on a monthly basis according to the payment base and proportion specified by the local labour and social security departments, and the payment shall not be used to offset the amount that the Group shall pay to its employee in the future.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Taxes payable

	31 December 2021	31 December 2020
Unpaid VAT	19,436	24,234
Corporate income tax payable	18,564	18,092
Others	9,291	14,515
	<u>47,291</u>	<u>56,841</u>

(24) Other payables

	31 December 2021	31 December 2020
Construction costs payable and deposits	678,045	838,871
Payable for purchase of fixed assets and intangible assets	51,174	18,930
Old Dongjiao Sewage Plant's Demolition of asset transfer payments (a)	68,736	–
Dividends payable	2,800	142
Interests payable	–	2,097
Others	157,963	95,733
	<u>958,718</u>	<u>955,773</u>

As at 31 December 2021, other payables of RMB680 million (31 December 2020: RMB642 million) are aged over one year, which mainly represent construction costs payable and guarantee deposits for Dalian Oriental Chunliuhe sewage processing project, Karamay Sewage processing PPP project and Honghu sewage plants construction upgrading projects and etc. The balance is yet to be settled as the projects have not been completed.

- (a) On behalf of Tianjin Land Consolidation Center, the Company received RMB69 million for the transfer of demolition assets of an old Dongjiao Sewage plant.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(25) Current portion of non-current liabilities

	Notes	31 December 2021	31 December 2020
Current portion of long-term borrowings	4(26)	911,758	805,331
Current portion of long-term payables	4(29)	35,555	35,106
Provisions expected to be settled within one year	4(30)	4,253	13,281
Current portion of lease liabilities	4(28)	3,115	–
Current portion of interest payable for the debentures	4(27)	2,458	42,974
Current portion of the debentures	4(27)	–	699,571
		<u>957,139</u>	<u>1,596,263</u>

(26) Long-term borrowings

		31 December 2021	31 December 2020
Long-term borrowings			
– Unsecured		2,670,637	1,153,388
– Guaranteed (a)		2,561,395	2,357,278
– Pledged (b)		2,529,219	1,211,523
– Mortgaged (c)		<u>347,674</u>	<u>311,036</u>
		<u>8,108,925</u>	<u>5,033,225</u>
Less: Current portion of long-term borrowings (Note 4(25))			
– Unsecured		(308,900)	(391,700)
– Guaranteed (a)		(302,967)	(291,590)
– Pledged (b)		(263,428)	(95,400)
– Mortgaged (c)		<u>(36,463)</u>	<u>(26,641)</u>
		<u>(911,758)</u>	<u>(805,331)</u>
		<u>7,197,167</u>	<u>4,227,894</u>

- (a) As at 31 December 2021, the long-term borrowings of RMB2,238 million (31 December 2020: RMB2,286 million) were guaranteed by the Company for its subsidiaries. The long-term borrowings of RMB31 million (31 December 2020: RMB71 million) were guaranteed by Tianjin Infrastructure Investment Group. The long-term borrowings of RMB292 million (31 December 2020: Nil) were guaranteed by the company and Karamay City Urban Construction Investment and Development Co., Ltd..

The interests of guaranteed borrowings are paid monthly or quarterly; and the principal will be due for repayment in the years of 2022 to 2036.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(26) Long-term borrowings (Continued)

- (b) As at 31 December 2021, the long-term borrowings of RMB1,592 million (31 December 2020: RMB288 million) were pledged by intangible assets of the Group (Note 4(14)). The long-term borrowings of 420 million (31 December 2020: Nil) were pledged by the long-term equity investment of the Group (Note 15(3)). The long-term borrowings of RMB395 million (31 December 2020: RMB415 million) were pledged by the long-term receivables (Note 4(8)) while it was pledged by the intangible assets on 31 December 2020 (Note 4(14)). The long-term borrowings of RMB122 million (31 December 2020: RMB35 million) were pledged by other non-current assets of the Group (Note 4(17)) while it was pledged by the intangible assets on 31 December 2020 (Note 4(14)). The pledged loan of RMB474 million in 2020 has been paid off in 2021.

The interests of pledged borrowings are paid quarterly; and the principals will be respectively due for repayment in the years of 2022 to 2041.

- (c) As at 31 December 2021, the long-term borrowings of RMB155 million (31 December 2020: Nil) is mortgaged by land use right (Note 4(14)) and equipment (Note 4(11)) of the Group. The long-term borrowings of RMB145 million (31 December 2020: RMB139 million) is mortgaged by land use right (Note 4(14)), equipments (Note 4(11)), and construction in process (Note 4(12)). The long-term borrowings of RMB47 million (31 December 2020: Nil) is mortgaged by the Group's plants (Note 4(11)). The mortgaged loan of RMB172 million in 2020 has been repaid in 2021.

The interests of mortgaged borrowings are paid quarterly; and the principals will be respectively due for repayment in the years of 2022 to 2030.

- (d) As at 31 December 2021, the balance of long-term borrowings due within one year included the accrual of interest expenses of RMB3 million.
- (e) As at 31 December 2021, these long-term borrowings bore interest rates between 3.30% and 5.15% 31 December 2020: between 3.33% and 5.15%).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Debentures payable

	31 December 2020	Issue	Payment	Amortization	31 December 2021
Debentures payable					
– Par value	1,800,000	250,000	(1,800,000)	–	250,000
– Transaction cost	(1,581)	–	–	1,581	–
	<u>1,798,419</u>	<u>250,000</u>	<u>(1,800,000)</u>	<u>1,581</u>	<u>250,000</u>
Total	1,798,419	250,000	(1,800,000)	1,581	250,000
Less: Current portion of debentures payable	(699,571)	–	700,000	(429)	–
	<u>1,098,848</u>	<u>250,000</u>	<u>(1,100,000)</u>	<u>1,152</u>	<u>250,000</u>

General information of debentures payable are as follows:

	Per Value	Issuance date	Period	Issuance amount
Corporate debenture (a)	700,000	25 October 2016	5 years	700,000
Corporate debenture (b)	1,100,000	26 April 2018	5 years	1,100,000
Corporate debenture (c)	250,000	18 October 2021	5 years	250,000
	<u>2,050,000</u>			<u>2,050,000</u>

Interest accrued/paid for the debentures is analysed as follows:

	31 December 2020	Interest accrued in current year	Interest paid in current year	31 December 2021
Corporate debenture (a)	4,022	–	(4,022)	–
Corporate debenture (b)	38,952	–	(38,952)	–
Corporate debenture (c)	–	2,458	–	2,458
	<u>42,974</u>	<u>2,458</u>	<u>(42,974)</u>	<u>2,458</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Debentures payable (Continued)

- (a) On 25 October 2016, the Company issued a 5-year debenture at par value of RMB700 million on The Shanghai Stock Exchange as approved by the Securities Regulatory Commission of China [2016]1896. The fixed interest rate of 3.13% has been accrued and settled per annum. The principal was due and repaid on 25 October 2021.
- (b) On 26 April 2018, the Company issued a 5-year debenture at par value of RMB1,100 million on The Shanghai Stock Exchange as approved by the Securities Regulatory Commission of China [2016]1896. The fixed interest rate of 5.17% has been settled per annum. The principal was repaid on 20 April 2021 in advance to its due date.
- (c) On 18 October 2021, the Company issued a 5-year debenture at par value of RMB250 million on The Shanghai Stock Exchange as approved by the Securities Regulatory Commission of China [2021]1702. The fixed interest rate of 4.85% has been accrued and settled per annum. The principal will be repaid on maturity date, which is 18 October 2026.

(28) Lease liabilities

	31 December 2021	31 December 2020
Lease liabilities	9,345	–
Less: Current portion (Note 4(25))	(3,115)	–
	<u>6,230</u>	<u>–</u>

- (a) As at 31 December 2021, the future minimum lease payments of short-term leases adopting the CAS 21 – Lease revised by The Ministry of Finance in 2018 were RMB1 million, which should be paid within one year.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(29) Long-term payables

	31 December 2021			31 December 2020		
	Payables	Unrecognised financial charges	Total	Payables	Unrecognised financial charges	Total
Payable for assets acquisition	361,266	(138,055)	223,211	399,075	(132,435)	266,640
Payable for sale-leaseback assets	8,600	–	8,600	16,200	–	16,200
	<u>369,866</u>	<u>(138,055)</u>	<u>231,811</u>	<u>415,275</u>	<u>(132,435)</u>	<u>282,840</u>
Less: Current portion (Note 4(25))			<u>(35,555)</u>			<u>(35,106)</u>
			<u>196,256</u>			<u>247,734</u>

(a) Information of long-term payables is as follows:

	Maturity date	Effective interest rate	Payable balance	Less: Current portion	Ending balance
Tianjin Drainage Company	20 March 2041	5.94%	223,211	(29,355)	193,856
Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	3 September 2023	3.80%	<u>8,600</u>	<u>(6,200)</u>	<u>2,400</u>
			<u>231,811</u>	<u>(35,555)</u>	<u>196,256</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(29) Long-term payables (Continued)

(a) Information of long-term payables is as follows: (Continued)

As at 31 December 2021, long-term payable to Tianjin Drainage Company (“Drainage Company”) is the consideration payable by the Group in respect of the acquisition of sewage water processing assets from Drainage Company, net of unrecognised financing charges. Pursuant to Assets Transfer Agreement from Foreign Banks Loans About Haihe River Tianjin Sewage Processing Project and Beicang Sewage Processing Project (the “Transfer Agreement”), Sewage Company sold to the Company certain sewage processing assets. The down payment is RMB261 million, and remaining payments will be settled in RMB translated at exchange rates prevailing on each repayment date over the remaining 20 years. The fair value of the initial recognition of the payable balance is RMB430 million, which was calculated based on discounted future cash payments and discount rate of 5.94%.

The balance of the long-term payables to Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd. is the amount of sale-leaseback assets of Shandong Capital Environmental Protection Technology Consultant Co., Ltd..

(b) The balance of long-term payable is denominated in the following currencies:

	31 December 2021	31 December 2020
JPY	165,627	196,100
USD	57,584	70,540
CNY	8,600	16,200
	<u>231,811</u>	<u>282,840</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(29) Long-term payables (Continued)

(c) The amounts of long-term payables (including interest) are denominated in the following currencies:

	31 December 2021	31 December 2020
JPY	266,227	321,972
USD	95,039	77,103
CNY	8,600	16,200
	<u>369,866</u>	<u>415,275</u>

The balance denominated in USD bears an interest rate at 6-month LIBOR plus 0.6%, whilst the balance denominated in JPY bears fixed interest rates at 1% and 1.55% per annum respectively.

(d) The long-term payables mature as follows. As at 31 December 2021, the current portion of long-term payables of RMB36 million (31 December 2020: RMB35 million) was classified as current liabilities (Note 4(25)).

	31 December 2021	31 December 2020
Within 1 year	35,555	35,106
1-2 years	31,135	29,188
2-5 years	67,758	76,901
Over 5 years	97,363	141,645
	<u>231,811</u>	<u>282,840</u>

(30) Provisions

	31 December 2020	Increase in the current year	Decrease in the current year	31 December 2021
Maintenance cost of concession project assets	23,472	1,475	(9,028)	15,919
Others	3,546	–	–	3,546
Less: Current portion (Note 4(25))	<u>(13,281)</u>	<u>–</u>	<u>9,028</u>	<u>(4,253)</u>
	<u>13,737</u>	<u>1,475</u>	<u>–</u>	<u>15,212</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(31) Deferred income

	31 December 2020	Additions	Recognised in other income	31 December 2021	Asset related/ Income related
Government grants					
Sewage water processing project:					
– Jingu	1,155,975	–	(51,285)	1,104,690	assets
– Jingu upgrading project	149,960	–	(6,520)	143,440	assets
– Beichen upgrading project	82,800	–	(3,600)	79,200	assets
– Xianyang Road-upgrading project	54,353	–	(2,363)	51,990	assets
– Dongjiao upgrading project	38,140	–	(1,658)	36,482	assets
– Ningxiang upgrading project	16,417	6,921	(931)	22,407	assets
– Gaocheng project	–	22,388	–	22,388	assets
– Linxia reconstruction and extension project	9,066	–	(320)	8,746	assets
– Beishiqiao upgrading project	8,916	–	(719)	8,197	assets
– Chibi upgrading project	7,750	–	–	7,750	assets
Water recycling project					
– Jingu	193,934	–	(5,557)	188,377	assets
– Dongjiao	19,731	–	(675)	19,056	assets
– Beichen	17,062	–	(525)	16,537	assets
– Xianyanglu	11,903	–	(441)	11,462	assets
Heating and cooling supply service project	207,419	8,089	(9,174)	206,334	assets
Others	8,008	64	(1,237)	6,835	assets
	<u>1,981,434</u>	<u>37,462</u>	<u>(85,005)</u>	<u>1,933,891</u>	

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(32) Other non-current liabilities

	31 December 2021	31 December 2020
Heating service fee	<u>32,000</u>	<u>34,000</u>

(33) Share capital

Movement of the Company's authorised, issued and fully paid-up capital is set out below.

	Circulating A shares	Circulating H shares	Total
At 31 December 2021, 31 December 2020 and 31 December 2019	<u>1,087,228</u>	<u>340,000</u>	<u>1,427,228</u>

All of the Company's shares are ordinary shares with par value of RMB1. All the A-shares and H-shares rank pari passu in all respects.

(34) Capital surplus

	31 December 2020	Increase in the current year	Decrease in the current year	31 December 2021
Share premium	431,024	–	–	431,024
Other capital surplus – Share-based payment (a)	<u>–</u>	<u>6,925</u>	<u>–</u>	<u>6,925</u>
	<u>431,024</u>	<u>6,925</u>	<u>–</u>	<u>437,949</u>
	31 December 2019	Increase in the current year	Decrease in the current year	31 December 2020
Share premium	<u>431,024</u>	<u>–</u>	<u>–</u>	<u>431,024</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(34) Capital surplus (Continued)

(a) Share-based payment

On 23 December 2020, the Company's general meeting of shareholders resolved to issue the Company's A-share ordinary shares to the directors and the senior management personnel and other personnel ("incentive objects"). The incentive plan grants 14.27 million share options to the incentive objects, and the corresponding number of underlying shares is 14.27 million, which does not exceed 1% of the Company's total share capital; among which, 12.17 million shares were granted for the first time, accounting for 0.85% of the Company's total share capital; 2.1 million shares are reserved, accounting for 0.15% of the Company's total share capital. The Board of Directors of the Company resolved on 21 January 2021 and 21 December 2021, granting 12.17 million share options to 155 incentive objects and 1.348 million share options to 17 incentive objects respectively. The exercise prices are RMB6.98 per share and RMB6.86 per share, of which the exercise price RMB6.86 per share is determined based on the exercise price of RMB6.98 per share and the impact of cash dividend payment. If the performance of the Group of 2021, 2022 and 2023 reaches the specific targets and the incentive objects do not leave the job, the share options will be exercised according to the following vesting period, exercise time and exercise proportions:

The exercise arrangement is as follows:

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

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(34) Capital surplus (Continued)

(a) Share-based payment (Continued)

Statement of changes in share-based payment:

	2021 Thousand shares
Number of ordinary shares subject to outstanding options at the beginning of year	–
Number of options granted during the year	13,518
Number of options lapsed during the year	(976)
	<hr/>
Number of ordinary shares subject to outstanding options at the end of year	12,542
	<hr/>

Determination method of the fair value of the share-based payment on the grant date

The Company appointed independent valuation firm to evaluate the fair value of the share-based payment on the grant date. The fair value of the share options is determined by using the binary tree model of the option pricing method. The evaluation method is based on certain important parameters and assumptions, including, the market value of the shares of the Company, the remain expiry period of the share options, the estimated turnover rate, the dividend rate, the stock price volatility and the risk-free interest rate corresponding to the expiry period, and the agreed exercise price.

On the grant dates of 21 January 2021 and 21 December 2021, the fair value of the share-based payment was RMB23 million and RMB3 million. As at 31 December 2021, due to the change of headcount of the incentive objects, the fair values of the share options were adjusted to RMB21 million and RMB3 million respectively. For the year ended 31 December 2021, based on the service contents of the incentive objects, the Group charged share-based payment expenses to general and administrative expenses and operating costs respectively. Correspondingly the capital reserve was increased by RMB7 million and the minority interests were increased by RMB0.4 million.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(35) Surplus reserve

	31 December 2020	Increase in the current year	Decrease in the current year	31 December 2021
Statutory surplus reserve	619,054	58,282	–	677,336
	31 December 2019	Increase in the current year	Decrease in the current year	31 December 2020
Statutory surplus reserve	558,250	60,804	–	619,054

Pursuant to the PRC Companies Law and the Company's Articles of Association, the Company is required to appropriate 10% of its net profit for the year to the statutory surplus reserve, which can be ceased till the reserve reaches 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the capital after approval from the appropriate authorities.

(36) Undistributed profits

	2021	2020
Undistributed profits at the beginning of the year	4,114,045	3,757,523
Add: Net profit attributable to shareholders of the Company for the current year	693,189	570,039
Less: Appropriation for statutory surplus reserve	(58,282)	(60,804)
Ordinary share dividends payable (a)	(171,267)	(152,713)
Undistributed profits at the end of the year	4,577,685	4,114,045

- (a) On 22 June 2021, the shareholders approved the cash dividend of RMB1.20 (gross tax) for every 10 shares to all shareholders, totaling of RMB171 million based on the issued shares. (Note 11).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(37) Revenue and cost of sales

	2021		2020	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operations	4,282,486	3,018,725	3,127,127	2,025,418
Other operations	253,093	169,571	236,747	159,701
	<u>4,535,579</u>	<u>3,188,296</u>	<u>3,363,874</u>	<u>2,185,119</u>

(a) Revenue from principal operations and cost of sales

Analysis by the nature of services is as below:

	2021		2020	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Sewage water processing and water plant facilities construction	3,351,815	2,353,001	2,392,487	1,554,079
Recycled water and pipeline connection	337,044	209,258	317,109	226,520
Hazardous waste treatment	220,384	187,531	77,375	46,359
Tap water and water plant facilities construction	149,716	115,254	99,299	80,755
Heating and cooling supply and related facilities construction	102,354	68,981	100,610	67,103
Sale of environmental protection equipment	52,752	39,003	43,232	14,829
Others	68,421	45,697	97,015	35,773
	<u>4,282,486</u>	<u>3,018,725</u>	<u>3,127,127</u>	<u>2,025,418</u>

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

(37) Revenue and cost of sales (Continued)

(a) Revenue from principal operations and cost of sales (Continued)

Analysis by locations is as follows:

	2021		2020	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Tianjin	2,012,667	1,207,859	1,774,475	1,105,418
Xi'an	518,500	461,717	163,275	115,318
Fuyang	290,841	187,229	129,627	74,687
Hangzhou	261,007	166,000	259,286	160,279
Others	1,199,471	995,920	800,464	569,716
	<u>4,282,486</u>	<u>3,018,725</u>	<u>3,127,127</u>	<u>2,025,418</u>

(b) Revenue from other operations and cost of sales

	2021		2020	
	Revenue from other operations	Cost of sales	Revenue from other operations	Cost of sales
Contract operation income	174,573	147,793	173,563	142,643
Technical service fee	60,240	10,807	45,242	6,994
Agent construction services	9,576	6,651	7,197	4,336
Others	8,704	4,320	10,745	5,728
	<u>253,093</u>	<u>169,571</u>	<u>236,747</u>	<u>159,701</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(37) Revenue and cost of sales (Continued)

(c) *Splits of the Group's revenues from main operations*

The Group's operating income listed as follows:

	2021						
	Sewage water processing and water plant facilities construction	Recycled water and pipeline connection	Heating and cooling supply and related facilities construction	Tap water and water plant facilities construction	Sale of environmental protection equipment	Others	Group
Revenue from main operations							
Including:							
Recognised at a point in time	-	-	-	-	-	1,261	1,261
Recognised over time	3,351,815	337,044	102,354	149,716	52,752	287,544	4,281,225
	<u>3,351,815</u>	<u>337,044</u>	<u>102,354</u>	<u>149,716</u>	<u>52,752</u>	<u>288,805</u>	<u>4,282,486</u>
Revenue from other operations							
Including: Recognised over time	-	-	-	-	-	253,093	253,093
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>253,093</u>	<u>253,093</u>
	2020						
	Sewage water processing	Recycled water and pipeline connection	Heating and cooling supply	Tap water	Sale of environmental protection equipment	Others	Group
Revenue from main operations							
Including:							
Recognised at a point in time	-	-	-	-	-	27,049	27,049
Recognised over time	2,392,487	317,109	100,610	99,299	43,232	147,341	3,100,078
	<u>2,392,487</u>	<u>317,109</u>	<u>100,610</u>	<u>99,299</u>	<u>43,232</u>	<u>174,390</u>	<u>3,127,127</u>
Revenue from other operations							
Including:							
Recognised over time	-	-	-	-	-	236,747	236,747
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>236,747</u>	<u>236,747</u>

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

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(37) Revenue and cost of sales (Continued)

(c) *Splits of the Group's revenues from main operations* (Continued)

As of 31 December 2021, based on the pre-determined agreement price, and actual processing and supplying amount, the Group issued bills to customers at fixed period for its sewage operation services, supplies of recycled water and tap water. The bill can represent the value that the Group has transferred to customers. All consideration is included in the bills amount thus the Group did not disclose the transaction price allocated to the remaining performance obligations.

As of 31 December 2021, the performance obligation regarding a signed contract of recycled water supply supporting project amounted to RMB515 million (31 December 2020: RMB557 million) was not fully completed. The revenue will be recognised over time based on the progress towards the completion of related performance obligations in the following years.

As of 31 December 2021, the performance obligation regarding a signed contract of cooling supply services amounted to RMB24 million (31 December 2020: Nil) was not fully completed and the Group expects the related revenue of RMB13 million and RMB11 million will be recognised in 2022 and 2023 respectively; the performance obligation regarding a contract of heating supply services amounted to RMB26 million (31 December 2020: RMB7 million) was not fully completed and the Group expects the related revenue of RMB13 million and the RMB13 million will be recognised in 2022 and 2023 respectively; the performance obligation regarding a contract of commissioned contract operation amounted to RMB29 million (31 December 2020: RMB91 million) was not fully completed and the Group expects the related revenues of RMB27 million and RMB2 million will be recognised in 2022 and 2023, respectively.

As at 31 December 2021, the performance obligation regarding a signed contract of agent construction services (31 December 2020: Nil) was not completed.(31 December 2020: RMB6 million); 2021; the performance obligation regarding a signed contract of tolls road service amounted to RMB447 million (31 December 2020: RMB509 million) was not fully completed. The Group expects to recognise revenues of RMB62 million in each of the years from 2022 to 2028, and revenue of RMB13 million in 2029.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(38) Taxes and surcharges

	2021	2020
Land use tax	17,163	17,110
Property tax	16,054	12,150
City maintenance and construction tax	5,031	10,161
Educational surcharge	2,245	4,559
Local educational surcharge	1,783	3,029
Others	2,422	1,760
	<u>44,698</u>	<u>48,769</u>

(39) Selling expenses

	2021	2020
Employee benefits	7,722	5,865
Travelling, meeting and business entertainment expenses	1,719	653
Consulting service fees	1,007	8,718
General office expenses	145	61
Depreciation of fixed assets	45	17
Others	1,197	565
	<u>11,835</u>	<u>15,879</u>

(40) General and administrative expenses

	2021	2020
Employee benefits	153,439	124,623
Consulting service fees	14,846	13,060
Depreciation of fixed assets	10,341	9,558
Repair and maintenance expenses	8,972	3,430
Share-based amortization	6,574	-
General office expenses	6,314	6,415
Travelling, meeting and business entertainment expenses	5,473	5,521
Expenses of the board of directors	4,972	4,378
Audit fees	3,784	3,300
Other taxes	2,485	1,173
Utilities	2,061	2,027
Amortisation of intangible assets	1,849	2,813
Others	3,723	1,780
	<u>224,833</u>	<u>178,078</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(41) Research and development expenses

	2021	2020
Employee benefits	10,028	7,128
Raw materials consumption	4,151	3,735
Repair and maintenance expenses	2,298	96
Factory environment, detection and fire prevention fee	290	879
Others	1,578	1,363
	<u>18,345</u>	<u>13,201</u>

(42) Financial expenses

	2021	2020
Loan Interest expenses	375,544	311,736
Add: Interest expenses on lease liabilities	439	–
Less: Amount capitalised on qualifying assets	<u>(36,566)</u>	<u>(39,706)</u>
Interest expenses	339,417	272,030
Less: Interest income	(193,656)	(23,035)
Including: From long-term receivables	(178,916)	(8,631)
From bank deposits	(14,740)	(14,404)
Exchange gains (a)	(30,648)	(10,490)
Others	1,579	595
	<u>116,692</u>	<u>239,100</u>

(a) In 2021, the exchange gains on the long-term payables denominated in JPY and US dollar were RMB31 million (2020: 10 million).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(43) Expenses by nature

The cost of sales, selling expenses, general and administrative expenses and research and development expenses in the income statement are listed as follows by nature:

	2021	2020
Concession project construction expenses	726,077	–
Amortisation – intangible assets	550,728	518,939
Employee benefit expenses	457,266	377,319
Less: cost in concession project assets	(3,652)	(5,762)
Share-based payment fee	7,370	–
Raw materials and consumables used	412,211	439,438
Utilities	390,427	353,804
Sewage mud processing fee	219,388	92,512
Repair and maintenance expenses	202,826	201,931
Subcontract cost of recycling water pipeline	87,346	100,629
Depreciation – property, plant and equipment	76,931	54,282
Consulting service expenses	57,776	46,335
Factory environment, detection and fire prevention expenses	52,511	43,015
Network maintenance costs	43,203	24,263
Construction cost of environmental protection project	35,890	40,378
Travel, meeting and business entertainment expenses	25,955	20,509
Hazard waste treatment fee	20,555	12,438
General office expenses	10,970	10,251
Toll road management fee	7,120	7,120
Expenses of the board of directors	4,972	5,328
Other taxes	4,507	1,652
Auditors' remuneration – audit services	3,784	3,300
Depreciation – right-of-use assets	2,627	–
Others	46,521	44,596
	<u>3,443,309</u>	<u>2,392,277</u>

(a) For the repair and maintenance expenses that do not qualify for capitalisation of long-term assets, are accounted as maintenance of assets related to the main operating assets; then are recognized as cost of sales.

(44) Other Income

	2021	2020	Asset related/ Income related
Government grants (a)	91,839	96,577	Assets/Income
VAT refund	21,813	65,700	Income
Withholding and paying individual income tax refund	174	133	
	<u>113,826</u>	<u>162,410</u>	

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(44) Other Income (Continued)

(a) Details of government grants

	2021	2020	Asset related/ Income related
Government grants – Deferred income			
Sewage water processing project:			
– Jingu sewage processing plant	51,285	51,285	Assets
– Jingu sewage water processing plant upgrading project	6,520	6,520	Assets
– Beichen sewage water processing plant upgrading project	3,600	3,600	Assets
– Xianyanglu sewage water processing plant upgrading project	2,363	2,363	Assets
– Dongjiao sewage water processing plant upgrading project	1,658	1,658	Assets
– Others	1,970	1,976	Assets
Water recycling project			
– Jingu	5,557	5,564	Assets
– Others	1,641	1,641	Assets
Capital Alternative cooling and heating subsidy	9,174	9,057	Assets
Special funds for Research and development center projects	–	3,454	Income
Others	1,237	290	Income
Subtotal	<u>85,005</u>	<u>87,408</u>	
Government grants – recognized in one-time			
Tax subsidy	1,393	1,111	Income
Electricity subsidy	–	4,053	Income
Others	5,441	4,005	Income
Subtotal	<u>6,834</u>	<u>9,169</u>	
Total Government grants	<u>91,839</u>	<u>96,577</u>	

(45) Credit impairment (gains)/losses

	2021	2020
Long-term receivables (gains)/losses	(20,584)	764
Accounts receivable losses	15,526	87,573
Other receivables losses/(gains)	914	(5)
	<u>(4,144)</u>	<u>88,332</u>

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

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(46) Assets impairment losses

	2021	2020
Provision for impairment of goodwill (Note 4 (15))	99,659	–
Provision for impairment of intangible assets (Note 4 (14)(a)(v))	49,000	28,551
Provision for impairment of other non-current assets	3,160	–
Provision for impairment of other current assets	–	6,257
	<u>151,819</u>	<u>34,808</u>

(47) (Losses)/Gains on disposals of assets

	2021	2020	Classified as non-recurring profit or loss for 2021
(Losses)/gains on disposals of fixed assets	<u>(22)</u>	<u>67</u>	<u>(22)</u>

(48) Non-operating income

	2021	2020	Classified as non-recurring profit or loss for 2021
Receiving of compensation	815	89	815
Waiver of accounts payable	–	830	–
Others	<u>358</u>	<u>888</u>	<u>358</u>
	<u>1,173</u>	<u>1,807</u>	<u>1,173</u>

(49) Non-operating expenses

	2021	2020	Classified as non-recurring profit or loss for 2021
Losses on disposal of fixed assets	686	46	686
Donation	–	2,388	–
Others	<u>1,437</u>	<u>4,254</u>	<u>1,437</u>
	<u>2,123</u>	<u>6,688</u>	<u>2,123</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(50) Income tax expenses

	2021	2020
Current income tax calculated based on tax law and related regulations	172,722	145,590
Deferred income tax	4,327	(33,544)
	<u>177,049</u>	<u>112,046</u>

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	2021	2020
Total profit	<u>896,059</u>	<u>718,184</u>
Income tax expenses calculated at applicable tax rates (25%)	224,015	179,546
Effect of favourable tax rates	(51,870)	(57,102)
Income not subject to tax	(41,176)	(51,925)
Costs, expenses and losses not deductible for tax purposes	29,865	24,017
Utilisation of previously unrecognised deductible temporary differences	(569)	(282)
Utilisation of previously unrecognised tax losses	(1,334)	(244)
Deductible temporary differences for which no deferred tax asset was recognised	16,149	11,699
Deductible tax losses for which no deferred tax asset was recognised	1,969	6,337
Income tax expenses	<u>177,049</u>	<u>112,046</u>

(51) Earnings per share

(a) *Basic earnings per share*

Basic earnings per share is calculated based on the profit attributable to owners of the parent of RMB693 million (2020: RMB570 million) and weighted average number of ordinary shares of 14.27 million shares in issue during the year (2020: 1,427 million shares).

	2021	2020
Consolidated net profit attributable to ordinary shareholders of the Company	693,189	570,039
Weighted average number of ordinary shares in issue (thousand shares)	1,427,228	1,427,228
Basic earnings per share (RMB Yuan)	<u>0.49</u>	<u>0.40</u>
Including:		
– Basic earnings per share for continuing operations	0.49	0.40
– Basic earnings per share for discontinued operations	<u>–</u>	<u>–</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(51) Earnings per share (Continued)

- (b) Diluted earnings per share are calculated based on consolidated net profit attributable to common shareholders of the parent company adjusted for dilutive underlying common shares divided by the weighted average of the adjusted common shares issued by the Company.

As there were no dilutive potential ordinary shares in 2021 (2020: Nil), diluted earnings per share equal to basic earnings per share.

(52) Notes to the consolidated cash flow statement

(a) Reconciliation from net profit to cash flows from operating activities

	2021	2020
Net profit	719,010	606,138
Add:		
Asset impairment losses	151,819	34,808
Credit impairment (gains)/losses	(4,144)	88,332
Depreciation of right-of-use assets	2,627	–
Depreciation of fixed assets	76,931	54,282
Amortisation of intangible assets	550,728	518,939
Losses on scrapping of fixed assets	686	46
Losses on disposal of fixed assets	22	(67)
Net financial expenses	308,769	261,540
Equity-settled share-based payment	7,370	–
Decrease/(Increase) in deferred tax assets	6,480	(8,756)
Amortisation of deferred income	(85,005)	(87,408)
Decrease in deferred liabilities	(2,153)	(24,788)
Increase in inventories	(2,567)	(2,655)
Increase in operating receivables	(1,018,688)	(942,036)
Increase in operating payables	224,923	34,061
Net cash flows from operating activities	936,808	532,436

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

	2021	2020
Cash	13	14
Cash at bank held for sale which can be readily drawn on demand	2,093,543	1,652,643
Cash listed in cash flow statement	2,093,556	1,652,657

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(52) Notes to the consolidated cash flow statement (Continued)

(c) Cash received relating to other operating activities

	2021	2020
Collection of the transfer of assets demolished by the old Dongjiao sewage plant	68,736	–
Government grants received	44,296	18,309
Interest income from bank deposits	14,740	14,404
Deposit on project bids received	7,670	28,800
Others	6,183	1,946
	<u>141,625</u>	<u>63,459</u>

(d) Cash paid relating to other operating activities

	2021	2020
Consulting service fees	19,636	24,776
Deposit on project bids paid	9,527	8,799
Repair and maintenance expenses	8,972	3,526
Travelling, meeting and business entertainment expenses	7,192	6,211
Expenses of the board of directors	4,972	4,378
Financial expenses	1,579	595
Others	27,258	12,789
	<u>79,136</u>	<u>61,074</u>

(e) Net cash received from disposals of fixed assets

	2021	2020
Carrying amount of disposals of fixed assets	4,922	602
Net losses from scrapping of fixed assets	(686)	(46)
Net gains from disposal of fixed assets	(22)	67
	<u>4,214</u>	<u>623</u>

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

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(52) Notes to the consolidated cash flow statement (Continued)

(f) Acquisition of subsidiaries

	2021
Cash and cash equivalents paid for business combinations in the current year	729,873
Including: Gaoyou Compro	380,194
Jiangsu Yonghui	349,679
Less: the cash and cash equivalents held by the subsidiary on the purchase day	(56,849)
Including: Gaoyou Compro	(47,679)
Jiangsu Yonghui	(9,170)
Net cash paid for acquisition of subsidiary	<u>673,024</u>
The price for acquisition of the subsidiary in 2021	
Gaoyou Compro	382,910
Jiangsu Yonghui	350,090
	<u>733,000</u>
Net assets of the subsidiary on the purchase date in 2021	
Current assets	81,572
Non-current assets	262,679
Current liabilities	(74,053)
Non-current liabilities	(42,318)
	<u>227,880</u>

As at 31 December 2021, the equity transfer payment of 3 million has not yet been paid.

(53) Monetary items denominated in foreign currencies

	31 December 2021		
	Foreign currency balance	Exchange rate	RMB balance
Cash –			
HKD	10,971	0.8171	<u>8,964</u>
Long-term payables –			
USD	9,032	6.3757	57,584
JPY	2,989,657	0.0554	<u>165,627</u>
			<u>223,211</u>

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5 CHANGE IN CONSOLIDATION SCOPE

(1) Newly established subsidiaries

In 2021, the Company invested RMB53 million to establish Honghu Tianchuang Environmental Protection Co., Ltd. and RMB62 million to establish Tianjin Xiqing Tianchuang Environmental Protection Co., Ltd., with a shareholding ratio of 89% and 100%, respectively.

(2) Business combination involving entities not under common control

(a) Business combination involving entities not under common control in this year

Acquiree	Date	Basis of the purchase date	Acquisition cost	Proportion of equity acquired (%)	Acquisition method	Revenue from the acquisition date to 31 December 2021	Net profit from the acquisition date to 31 December 2021	Cash flows from operating activities from the acquisition date to 31 December 2021	Net cash flows from the acquisition date to 31 December 2021
Gaoyou Compro	26 January 2021	Completion of consideration payment and change industrial and commercial registration	382,910	100	Acquisition	39,492	(9,711)	6,644	(12,141)
Jiangsu Yonghui	26 January 2021	Completion of consideration payment and change industrial and commercial registration	350,090	100	Acquisition	47,031	(2,861)	10,024	1,344

(b) Cost of combination and goodwill recognised are as follows:

	Gaoyou Compro	Jiangsu Yonghui
Cash	382,910	350,090
Less: Fair value of the identifiable net assets obtained	(148,186)	(79,694)
Goodwill	<u>234,724</u>	<u>270,396</u>

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5 CHANGE IN CONSOLIDATION SCOPE (Continued)

(2) Business combination involving entities not under common control (Continued)

(c) *The assets and liabilities of acquiree at the acquisition date and 31 December 2021 are as follows:*

	Fair value on acquisition date	Carrying amount on acquisition date	Carrying amount on 31 December 2021
i) Gaoyou Compro			
Cash	47,679	47,679	35,538
Notes receivable	275	275	200
Account receivables	9,388	9,388	19,777
Advances to suppliers	233	233	229
Other receivables	–	–	118
Inventories	1,147	1,147	1,146
Other current assets	791	791	–
Fixed assets	109,593	84,302	76,401
Intangible assets	20,119	4,814	4,829
Long-term amortization costs	625	1,103	117
Deferred tax assets	44	44	44
Less: Account payable	(26)	(26)	(3,693)
Contract liabilities	(7,731)	(7,731)	(9,737)
Employee benefits payables	(639)	(639)	(1,225)
Taxes payable	(330)	(330)	(57)
Other payables	(23,854)	(23,854)	(9,502)
Deferred tax liabilities	(9,128)	–	–
Net Assets Acquired	<u>148,186</u>	<u>117,196</u>	<u>114,185</u>
	Fair value on acquisition date	Carrying amount on acquisition date	Carrying amount on 31 December 2021
ii) Jiangsu Yonghui			
Cash	9,170	9,170	10,514
Notes receivable	1,080	1,080	–
Accounts receivable	5,589	5,589	27,952
Advances to suppliers	162	162	108
Inventories	654	654	936
Other Receivables	–	–	70
Other current assets	5,404	5,404	4,837
Fixed assets	113,383	108,186	100,535
Intangible assets	18,778	4,871	4,813
Long-term amortization costs	137	1,414	1,099
Less: Account payable	(70)	(70)	(9,891)
Contract liabilities	(10,686)	(10,686)	(18,827)
Employee benefits payables	(506)	(506)	(719)
Taxes payable	–	–	(150)
Other payables	(12,211)	(12,211)	(9,078)
Current portion of non-current liabilities	(18,000)	(18,000)	(15,680)
Long-term borrowings	(29,000)	(29,000)	(31,320)
Deferred tax liabilities	(4,190)	–	–
Net assets acquired	<u>79,694</u>	<u>66,057</u>	<u>65,199</u>

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5 CHANGE IN CONSOLIDATION SCOPE (Continued)

(2) Business combination involving entities not under common control (Continued)

(c) *The assets and liabilities of acquiree at the acquisition date and 31 December 2021 are as follows:* (Continued)

The fair value of the assets and liabilities of Gaoyou Compro and Jiangsu Yonghui at the acquisition date are determined by the Group using valuation techniques. The valuation method and critical assumptions applied are as follows:

The valuation method used for fixed assets is replacement cost, using the following critical assumptions:

The main assumptions used for the assessment include replacement costs and comprehensive residue ratio, in which the replacement costs mainly take into account the comprehensive cost of construction and security or the purchase and installation of equipment, upfront costs and other expenses, capital costs and deductible VAT. The replacement cost and the comprehensive residue ratio are determined with reference to the market transaction price and the status of the site survey, respectively.

The valuation method used for intangible assets is market approach, using the following critical assumptions:

The main assumptions used for the assessment include comparative example selection and correction factor coefficient, of which term amendment for land use term is mainly taken into account. The above comparative example is a number of reference objects with similar conditions or use of the same value under certain market conditions; comparing the period of land use with the assessment object and correcting the price of the reference object.

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6 EQUITY IN OTHER ENTITIES

(1) Subsidiaries

Name of subsidiaries	Type of subsidiary	Major business location	Place of registration	Nature of business and business activity	Registered capital	Shareholding (%)		Acquisition method
						Direct	Indirect	
Qijing Capital Water Co., Ltd.	Controlling	Qijing	Qijing	Processing of sewage water, tap water supply	178,983	87	-	Capital contribution
Guizhou Capital Water Co., Ltd.	Controlling	Guizhou	Guizhou	Processing of sewage water	120,000	95	-	Capital contribution
Baoying Capital Water Co., Ltd.	Controlling	Baoying	Baoying	Processing of sewage water	83,000	70	-	Capital contribution
Hangzhou Tianchuang Capital Water Co., Ltd.	Controlling	Hangzhou	Hangzhou	Processing of sewage water	377,445	70	-	Capital contribution
Tianjin Capital New Materials Co., Ltd.	Controlling	Tianjin	Tianjin	Manufacturing and sale of new building materials	37,500	71	-	Capital contribution
Fuyang Capital Water Co., Ltd.	Wholly owned	Fuyang	Fuyang	Processing of sewage water	455,689	100	-	Capital contribution
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	Wholly owned	Hong Kong	Hong Kong	Processing of sewage water	62,987	100	-	Capital contribution
Wendeng Capital Water Co., Ltd.	Wholly owned	Wendeng	Wendeng	Processing of sewage water	61,400	100	-	Capital contribution
Tianjin Jing Hai Capital Water Co., Ltd.	Wholly owned	Tianjin	Tianjin	Processing of sewage water	37,553	100	-	Capital contribution
Tianjin Water Recycling Co., Ltd.	Wholly owned	Tianjin	Tianjin	Production and sales of recycled water, development and construction of water recycling facilities, and technical consulting for water recycling business	100,000	100	-	Capital contribution
Xi'an Capital Water Co., Ltd.	Wholly owned	Xi'an	Xi'an	Processing of sewage water	476,170	100	-	Capital contribution
Caring Company	Controlling	Tianjin	Tianjin	Environment governance, technical consulting, etc.	33,333	48	12	Capital contribution
Anguo Capital Water Co., Ltd.	Wholly owned	Anguo	Anguo	Processing of sewage water	41,000	100	-	Capital contribution
Wuhan Tianchuang Capital Water Co., Ltd.	Wholly owned	Wuhan	Wuhan	Processing of sewage water, tap water supply	201,969	100	-	Capital contribution
Tianjin Jinning Capital Water Co., Ltd.	Wholly owned	Tianjin	Tianjin	Processing of sewage water	22,560	100	-	Capital contribution
Tianjin Capital Alternative Energy Technology Co., Ltd.	Wholly owned	Tianjin	Tianjin	Energy saving, innovative energy research, consulting and transfer services, property management	191,951	100	-	Capital contribution
Yingshang Capital Water Co., Ltd.	Wholly owned	Yingshang	Yingshang	Processing of sewage water	53,000	100	-	Capital contribution
Shandong Company	Controlling	Shandong	Shandong	Investment in and construction of sewage water processing facilities	82,000	55	-	Capital contribution
Changsha Tianchuang Environmental Protection Co., Ltd.	Controlling	Changsha	Changsha	Processing of sewage water	46,015	81	-	Capital contribution
Karamay Tianchuang Capital Water Co., Ltd.	Controlling	Karamay	Karamay	Processing of sewage water	120,000	90	-	Capital contribution
Anhui Tianchuang Capital Water Co., Ltd.	Wholly owned	Hefei	Hefei	Processing of sewage water	63,670	100	-	Capital contribution
Linxia Capital Water Co., Ltd.	Wholly owned	Linxia	Linxia	Processing of sewage water	45,000	100	-	Capital contribution
Dalian Oriental Chunliuhe Water Quality Purification Co., Ltd.	Controlling	Dalian	Dalian	Processing of sewage water	94,079	64	-	Capital contribution
Changsha Tianchuang Capital Water Co., Ltd.	Controlling	Changsha	Changsha	Processing of sewage water	21,252	80	-	Capital contribution

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6 EQUITY IN OTHER ENTITIES (Continued)

(1) Subsidiaries (Continued)

Name of subsidiaries	Type of subsidiary	Major business location	Place of registration	Nature of business and business activity	Registered capital	Shareholding (%)		Acquisition method
						Direct	Indirect	
Bayannur Capital Water Co., Ltd.	Controlling	Bayannur	Bayannur	Processing of sewage water, producing and sailing of recycled water and supplying tap water	1,067,578	70	-	Acquisition not under common control
Honghu Tianchuang Capital Water Co., Ltd.	Controlling	Honghu	Honghu	Processing of sewage water	131,331	85	-	Capital contribution
Hefei Capital Water Co., Ltd.	Wholly owned	Hefei	Hefei	Processing of sewage water	205,957	100	-	Capital contribution
Deqing Capital Water Co., Ltd.	Controlling	Deqing	Deqing	Processing of sewage water	60,000	90	-	Capital contribution
Hebei Guojin Tianchuang Sewage Water Processing Co., Ltd.	Controlling	Gaocheng	Gaocheng	Processing of sewage water, producing and sailing of recycled water	217,497	59	-	Capital contribution
Hanshou Tianchuang Capital Water Co., Ltd.	Controlling	Hanshou	Hanshou	Supplying tap water	45,000	75	-	Capital contribution
Jiuquan Capital Water Co., Ltd.	Controlling	Jiuquan	Jiuquan	Processing of sewage water and reusing of reclaimed water	178,238	89	-	Capital contribution
Huize Capital Water Co., Ltd.	Controlling	Huize	Huize	Centralised water supply, Processing of sewage water	41,237	79	-	Capital contribution
Huoqiu Capital Water Co., Ltd.	Controlling	Huoqiu	Huoqiu	Processing of sewage water	41,283	90	-	Capital contribution
Dongying Tianchi Environmental Protection Technology Consultant Co., Ltd.	Controlling	Dongying	Dongying	Solid waste treatment	136,300	51	-	Capital contribution
Honghu Tianchuang Environmental Protection Co., Ltd.	Controlling	Honghu	Honghu	Processing of sewage water	60,000	89	-	Capital contribution
Xiqing Tianchuang Environmental Protection Co., Ltd.	Wholly owned	Tianjin	Tianjin	Processing of sewage water	62,106	100	-	Capital contribution
Jiangsu Yonghui	Wholly owned	Gaoyou	Gaoyou	Industrial solid waste incineration and disposal, general waste recycling, comprehensive utilisation	50,000	100	-	Acquisition not under common control
Gaoyou Compro	Wholly owned	Gaoyou	Gaoyou	Industrial solid waste incineration and disposal, general waste recycling, comprehensive utilisation	100,000	100	-	Acquisition not under common control
Shandong Tanchuang Environmental Protection Technology Development Co., Ltd	Controlling	Tancheng	Tancheng	Hazardous waste treatment and disposal	110,000	55	-	Division of existing subsidiary

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6 EQUITY IN OTHER ENTITIES (Continued)

(2) Subsidiaries with significant minority interests

Name	Minority interests	Minority interests for 2021	Declared dividends distribution to minority interests for 2021	Minority interests as at 31 December 2021
Bayannur Capital Water Co., Ltd. ("Bayannur Company")	30%	(1,740)	(450)	331,002
Hangzhou Tianchuang Capital Water Co., Ltd. ("Hangzhou Company")	30%	17,806	(24,262)	205,732
Hebei Guojin Tianchuang Sewage Water Processing Co., Ltd. ("Guojin Company")	41%	4,076	–	95,452
Caring Company	40%	5,056	(4,133)	50,452
Shandong Tanchuang Environmental Protection Technology Development Co., Ltd. ("Shandong Tanchuang")	45%	(5,678)	–	37,214
Shandong Company	45%	(3,902)	–	38,999

(a) Dividends announced to minority interests in 2021 have been paid in the current year.

The major financial information of the significant holding subsidiaries of the Group is listed below:

	31 December 2021					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou Company	271,594	583,088	854,682	83,439	85,470	168,909
Bayannur Company	58,976	1,073,339	1,132,315	16,659	12,316	28,975
Caring Company	177,824	6,363	184,187	54,319	3,739	58,058
Shandong Company	214,824	249,099	463,923	94,967	282,292	377,259
Guojin Company	70,939	283,618	354,557	47,334	74,413	121,747
Shandong Tanchuang	26,534	223,730	250,264	167,567	–	167,567
	<u>820,691</u>	<u>2,419,237</u>	<u>3,239,928</u>	<u>464,285</u>	<u>458,230</u>	<u>922,515</u>

	31 December 2020					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou Company	257,033	634,735	891,768	83,606	100,870	184,476
Bayannur Company	111,109	1,023,152	1,134,261	17,762	5,811	23,573
Caring Company	154,949	6,522	161,471	37,246	229	37,475
Shandong Company	59,411	504,874	564,285	81,836	293,825	375,661
Guojin Company	27,572	270,892	298,464	24,072	51,343	75,415
	<u>610,074</u>	<u>2,440,175</u>	<u>3,050,249</u>	<u>244,522</u>	<u>452,078</u>	<u>696,600</u>

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6 EQUITY IN OTHER ENTITIES (Continued)

(2) Subsidiaries with significant minority interests (Continued)

	2021			
	Revenue	Net profit/(losses)	Total comprehensive income	Net cash flows from operating activities
Hangzhou Company	261,269	59,351	59,351	150,501
Bayannur Company	71,092	(5,847)	(5,847)	10,319
Caring Company	156,516	12,411	12,411	(26,914)
Shandong Company	134,016	(8,756)	(8,756)	6,803
Guojin Company	76,153	9,761	9,761	25,584
Shandong Tanchuang	2,900	(12,617)	(12,617)	3,087
	<u>701,946</u>	<u>54,303</u>	<u>54,303</u>	<u>169,380</u>

	2020			
	Revenue	Net profit	Total comprehensive income	Net cash flows from operating activities
Hangzhou Company	259,560	79,377	79,377	94,918
Bayannur Company	82,657	(13,972)	(13,972)	15,918
Caring Company	129,356	11,872	11,872	8,366
Shandong Company	77,425	4,754	4,754	2,118
Guojin Company	12,567	5,615	5,615	(1,579)
	<u>561,565</u>	<u>87,646</u>	<u>87,646</u>	<u>119,741</u>

(3) Non-essential information of associates

	2021	2020
Total book value of investment		
The following items are the total amounts calculated according to the equity interests owned by the Group	195,000	195,000
Net profit (a)	-	-
Other comprehensive income (a)	-	-
Total comprehensive income	<u>-</u>	<u>-</u>

- (a) Both net profit and other comprehensive income have considered the fair value of identifiable assets and liabilities as well as the adjustment effect of the unified accounting policies at the time of investment.

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7 SEGMENT INFORMATION

The reportable segments of the Group are the business units that provide different products or service or operate in the different areas. Different businesses or areas require different technologies and marketing strategies, the Group, therefore, separately manages the production and operation of each reportable segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance.

The Group considers its operations from the perspective of providing services and regions. As the perspective of providing services, management assesses the performance of processing of sewage water, recycled water, pipeline connection, heating and cooling service, sales of tap water and sale of environmental protection equipment. Processing of sewage water is further evaluated on a geographical basis (Tianjin plants, Hangzhou plant and other plants). The environmental protection equipment sold by the Group is mainly the result of the scientific research and transformation of environmental protection patent technology. Other services, including contract operation services, rental income and technical services etc., are not separately presented within the reportable operating segments, but are included in the 'all other segments' column. The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Expenses indirectly attributable to each segment are allocated to the segments in proportion to the revenue.

(1) Segment information as at and for the year ended 31 December 2021 is as follows:

	Sewage water processing and water plant facilities construction			Recycled water and pipeline connection	Heating and cooling supply and related facilities construction	Tap water and water plant facilities construction	Sale of environmental protection equipment	All other segments (b)	Group
	Tianjin	Hangzhou	Others						
Revenue from external customers (Note 4(37))	1,481,307	261,007	1,609,501	337,044	102,354	149,716	52,752	541,898	4,535,579
Cost of sales	(872,503)	(166,000)	(1,314,498)	(209,258)	(68,981)	(115,254)	(39,003)	(402,799)	(3,188,296)
Interest income (Note 4(42))	54,756	442	115,059	4,386	1,152	8,019	1,078	8,764	193,656
Interest expenses (Note 4(42))	(208,358)	(4,052)	(108,629)	(451)	(3,025)	-	-	(14,902)	(339,417)
Results before share of profits of an associate	458,042	79,881	197,029	121,944	31,488	34,393	3,938	(30,656)	896,059
Segment total profit/(loss)	458,042	79,881	197,029	121,944	31,488	34,393	3,938	(30,656)	896,059
Income tax expenses	(69,918)	(20,700)	(21,357)	(38,402)	(8,524)	(4,557)	(964)	(12,627)	(177,049)
Segment net profit/(loss)	388,124	59,181	175,672	83,542	22,964	29,836	2,974	(43,283)	719,010
Net profit/(loss)									719,010
Depreciation expenses	(17,030)	-	(10,812)	(14,595)	(2,201)	-	(38)	(34,882)	(79,558)
Amortisation	(163,739)	(59,376)	(257,654)	(7,876)	(24,771)	(15,468)	-	(21,844)	(550,728)
Segment assets	8,220,258	843,771	7,792,478	712,753	662,271	488,334	58,101	2,092,326	20,870,292
Long-term equity investment in associate									195,000
Total assets									21,065,292
Total liabilities	(6,807,037)	(168,909)	(3,598,953)	(1,006,133)	(307,714)	(33,256)	(20,319)	(1,018,901)	(12,961,222)
Addition of non-current assets (a)	201,762	140	549,822	7,805	14,661	1,318	536	35,452	811,496

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7 SEGMENT INFORMATION (Continued)

(2) Segment information as at and for the year ended 31 December 2020 is as follows:

	Processing of sewage			Recycled water and pipeline connection	Heating and cooling supply	Tap water	Sale of environmental protection equipment	All other segments	Group
	Tianjin	Hangzhou	Others						
Revenue from external customers (Note 4(37))	1,270,965	259,286	862,236	317,109	100,610	99,299	43,232	411,137	3,363,874
Cost of sales	(802,567)	(160,279)	(591,233)	(226,520)	(67,103)	(80,755)	(14,829)	(241,833)	(2,185,119)
Interest income (Note 4(42))	12,536	877	3,184	4,130	478	30	1,503	297	23,035
Interest expenses (Note 4(42))	(176,528)	(5,662)	(77,468)	(696)	(1,945)	(768)	–	(8,963)	(272,030)
Results before share of profits of an associate	256,142	81,367	150,986	84,941	43,149	1,122	21,435	79,042	718,184
Segment total profit	256,142	81,367	150,986	84,941	43,149	1,122	21,435	79,042	718,184
Income tax expenses	(50,483)	(2,214)	(12,353)	(25,738)	(10,656)	(696)	(959)	(8,947)	(112,046)
Segment net profit	205,659	79,153	138,633	59,203	32,493	426	20,476	70,095	606,138
Net profit									606,138
Depreciation expenses	(13,334)	–	(3,302)	(17,195)	(1,338)	(41)	(300)	(18,772)	(54,282)
Amortization	(147,568)	(53,941)	(226,138)	(7,810)	(24,286)	(15,813)	–	(43,383)	(518,939)
Segment assets	7,072,581	880,871	7,204,756	976,934	672,597	464,438	53,894	1,281,898	18,607,969
Long-term equity investment in associate									195,000
Total assets									18,802,969
Total liabilities	(5,883,576)	(184,476)	(3,158,339)	(915,864)	(326,655)	(7,375)	(12,525)	(732,516)	(11,221,326)
Addition of non-current assets (a)	16,322	–	700,661	13,570	32,284	28,154	21	103,918	894,930

(a) Non-current assets do not include financial assets, long-term equity investments, or deferred tax assets.

The Group's revenue from external customers comes from China.

The Group's non-current assets are located within China.

The income from processing of sewage water segment of RMB1,436 million is derived from a single customer, accounting for 32% of the Group's total revenue (2020: RMB1,258 million, 37%).

(b) Other segment losses included a goodwill impairment loss of RMB100 million.

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8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) The parent company

(a) General information of the parent company

	Type	Place of registration	Legal representative	Nature of business and principal activities
Tianjin Municipal Investment Company Limited	Limited company	Tianjin, China	Gu Wenhui	Development and management of municipal infrastructures

The Company's ultimate controlling party is Tianjin Infrastructure Investment Group. The registered place is Tianjin.

(b) Registered capital and changes in registered capital of the parent company

	31 December 2020	Increase in the year	Decrease in the year	31 December 2021
Tianjin Municipal Investment Company Limited	1,820,000	–	–	1,820,000

(c) The percentages of shareholding and voting rights in the Company held by the parent company

	31 December 2021		31 December 2020	
	Share holding (%)	Voting Rights (%)	Share holding (%)	Voting Rights (%)
Tianjin Municipal Investment Company Limited	50.14%	50.14%	50.14%	50.14%

(2) Information of subsidiaries

The general information and other related information of the subsidiaries is set out in Note 6.

(3) Information of associates

The general information and other related information of the associates is set out in Note 4(9)(a).

(4) Information of other related parties

	Relationship with the Group
Tianjin Lecheng Properties Co., Ltd.	Controlled by the same ultimate holding company
Tianjin City Resource Operation Co., Ltd.	Controlled by the same ultimate holding company
Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	Controlled by the same ultimate holding company

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8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(5) Related party transactions

The Group's material transactions with related parties are as follows:

(a) Purchases of goods, and receiving of services

Related parties	Nature of Transaction	2021	2020
City Infrastructure Construction and Investment	Contracted operating expenses	16,448	7,426
City Infrastructure Construction and Investment	Sewage mud processing fee	60,578	—
		<u>77,026</u>	<u>7,426</u>

(a) Rendering of services

Related parties	Nature of transaction	2021	2020
City Infrastructure Construction and Investment	Commission income from contract operation	85,148	84,004
Tianjin Lecheng Properties Co., Ltd.	Income from heating and cooling supply	23,598	28,763
City Infrastructure Construction and Investment	Commission income from technical services	7,657	6,467
City Infrastructure Construction and Investment	Asset Repair Services	1,392	—
		<u>117,795</u>	<u>119,234</u>

(c) Sale-leaseback

Related party name	Type of leased assets	2021	2020
Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	Fixed assets	7,600	3,800

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8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(d) Guarantee received

Guarantor	Guarantee	Amount	Starting date	Due date	Fully performed or not
City Infrastructure Construction and Investment	Xi'an Capital Water Co., Ltd.	71,000	28 September 2008	27 September 2022	No

(e) Remuneration of key management

	2021	2020
Remuneration of key management	13,069	12,137
Share-based payment	441	–
	<u>13,510</u>	<u>12,137</u>

(6) Balances with related parties

(a) Receivables from related parties

	Related party name	31 December 2021		31 December 2020	
		Carrying amount	Provision	Carrying amount	Provision
Accounts receivable	City Infrastructure Construction and Investment	138,310	(4,666)	46,537	(2,495)
	Tianjin Lecheng Properties Co., Ltd.	550	(10)	21,342	(146)
	Tianjin City Resource Operation Co., Ltd.	1,200	(1,200)	401	(401)
		<u>140,060</u>	<u>(5,876)</u>	<u>68,280</u>	<u>(3,042)</u>

The receivables from related parties arise mainly from daily. The receivables are unsecured in nature and bear no interest.

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8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(6) Balances with related parties (Continued)

(b) Payables to related parties

	Related parties	2021	2020
Non-current liabilities due within one year	Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	<u>6,200</u>	<u>7,600</u>
Long-term payables	Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	<u>2,400</u>	<u>8,600</u>

(7) Transactions/balances with other state-owned enterprises in the PRC

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled by the PRC government (hereinafter collectively referred to as “state-owned entities”). The company is also a state-owned entity.

During the year, the Group’s significant transactions with these state-controlled entities include treatment of sewage and construction and management of related facility, supply of tap water and recycled water, and supply of heating and cooling services. At the end of the year, the majority of the Group’s cash and cash equivalents and borrowings are with state-controlled banks.

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8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(8) Benefits and interests of directors

(a) Directors' emoluments

The remuneration of directors of the Company for the year ended 31 December 2021 was as follows:

	Fees	Salary	Employer's contribution to a retirement benefit scheme	Discretionary bonuses	Other social security contributions	Share Incentive Expense	Total	Number of stock options
Chairman								
Liu Yujun	-	320	63	640	133	181	1,337	300
Executive directors								
Wang Jing	-	278	63	512	133	151	1,137	250
Niu Bo	-	286	63	342	133	109	933	180
Independent non-executive directors								
Wang Xiangfei (i)	198	-	-	-	-	-	198	-
Di Xiaofeng (i)	198	-	-	-	-	-	198	-
Guo Yongqing	220	-	-	-	-	-	220	-
Xu Zhiming (i)	22	-	-	-	-	-	22	-
Lu Yingying(i)	22	-	-	-	-	-	22	-
	<u>660</u>	<u>884</u>	<u>189</u>	<u>1,494</u>	<u>399</u>	<u>441</u>	<u>4,067</u>	<u>730</u>

- (i) Independent directors Wang Xiangfei and Di Xiaofeng resigned on October 19, 2021 and August 31, 2021, respectively. Independent directors Xu Zhiming and Lu Yingying were appointed on 11 November 2021.

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8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(8) Benefits and interests of directors (Continued)

(a) Directors' emoluments (Continued)

The remuneration of directors of the Company for the year ended 31 December 2020 was as follows:

	Fees	Salary	Employer's contribution to a retirement benefit scheme	Discretionary bonuses	Other social security contributions	Total	Number of stock options
Chairman							
Liu Yujun	–	336	28	607	119	1,090	–
Executive directors							
Wang Jing	–	305	28	358	119	810	–
Niu Bo	–	287	28	278	119	712	–
Independent non-executive directors							
Wang Xiangfei	220	–	–	–	–	220	–
Di Xiaofeng	220	–	–	–	–	220	–
Guo Yongqing	220	–	–	–	–	220	–
	<u>660</u>	<u>928</u>	<u>84</u>	<u>1,243</u>	<u>357</u>	<u>3,272</u>	<u>–</u>
						Emoluments paid in respect of person's services as a director of the Company or subsidiaries	
						2021	2020
Directors' emoluments						<u>4,067</u>	<u>3,272</u>

In 2021, there would be no waiver of remuneration by directors (2020: Nil).

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8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(9) Five highest paid individuals

In 2021, the five individuals whose emoluments were the highest in the Group for the year included two (2020: one) directors whose emoluments are reflected in the analysis shown in Note 8(8). The emoluments to the remaining three (2020: four) highest paid individuals during the year are as follows:

	2021	2020
Salaries, housing fund and other social security contributions	875	1,325
Discretionary bonuses	1,648	1,622
Social security costs	399	474
Pension costs – defined contribution plans	190	111
	<u>3,112</u>	<u>3,532</u>
	Number of individuals	
	2021	2020
Emolument bands (in HK dollar)		
HK\$500,000 – HK\$1,000,000	–	2
HK\$1,000,000 – HK\$1,500,000	3	2
	<u>3</u>	<u>2</u>

9 CONTINGENCIES

In 2021, the subsidiaries of the Group were involved in three civil litigations as the defendant, in which the related personnel forged official seals, signed false loan or project cooperation agreements with third parties respectively in the name of the subsidiaries and received payments from the third parties. And the whole process of relevant matters was unrelated to the Group. As at 31 December 2021, two litigations were dismissed and suspended by the court respectively due to the related personnel involved in criminal offenses. The remaining one litigation is still under trial, and the total amount of pending litigation is RMB28.25 million. Based on the facts and the professional advice of external legal counsel, the Group believes that these pending litigations are less likely to fail and are not expected to cause significant losses to the Group. Therefore, the contingent loss reserve has not been set aside as of the date of this financial report, and no similar civil litigations have occurred in the Group.

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

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10 COMMITMENTS

(1) Capital commitments

The Group's capital commitments at the balance sheet date are as follows:

	Contracted but not provided for		Authorised but not contracted for	
	31 December 2021 RMB million	31 December 2020 RMB million	31 December 2021 RMB million	31 December 2020 RMB million
Intangible assets – Concession right				
– Sewage processing project	280	469	–	220
– Tap water project	–	31	–	–
– Heating and cooling supply project	126	3	–	–
Property, plant and Equipment				
– Solid waste treatment project	119	–	–	–
	<u>525</u>	<u>503</u>	<u>–</u>	<u>220</u>

(2) Investment commitments

According to the announcement of the 62nd meeting of the 8th Board of Directors of the Company on November 19, 2021, the Company planned to set up Tianjin Jiayuan Kaichuang New Energy Technology Co., Ltd. Tianjin Jiayuan Kaichuang New Energy Technology Co., Ltd. has a registered capital of 80 million, in which the Company invested 80 million, with an 100% of the shares.

11 IMPACT OF EVENTS AFTER THE BALANCE SHEET DATE

(1) Dividend distribution

	Amount
Proposed dividend (a)	208,375
Dividends declared	171,267

- (a) At the Board meeting held on 24 March 2022, the resolution in respect of the proposed adoption of profit available for dividend to all shareholders is 208 million, which was not recognized as a liability in this financial statement (Note 4 (36)(a)).

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

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12 FINANCIAL INSTRUMENT AND RISK

The Group's activities expose it to a variety of financial risks: market risk (primarily including currency risk, interest rate risk and price risk), credit risk and liquidity risk. Those financial risks and the Group's overall risk management program which focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance are as below:

The board of directors is responsible for the planning and establishment of the risk management framework of the Group, the formulation of the risk management policies and related guidelines of the Group, and the supervision of the implementation of risk management measures. The Group has established risk management policies to identify and analyze the risks faced by the Group, which clearly define specific risks and cover many aspects such as market risk, credit risk and liquidity of risk management. The Group regularly assesses the market environment and changes in the Group's business activities to determine whether the risk management policies and systems are updated. The risk management of the Group is carried out by the Risk Management Committee in accordance with the policies approved by the board of directors. The risk management committee identifies, assesses and avoids risks through close cooperation with other business units of the Group. The internal audit department of the Group periodically conducts audits on risk management control and procedures, reporting the results to the audit committee of the Group.

(1) **Market risk:**

(a) *Foreign exchange risk:*

The Group's major operational activities and clients are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group has no significant foreign exchange risk. All of the Group's borrowings are denominated in RMB. The sole foreign exchange risk of the Group arises from fluctuation of USD and JPY pursuant to the long-term payment scheme set out in the asset transfer agreement of foreign loan financed assets from Sewage Company (Note 4(29)).

As at 31 December 2021, if RMB had strengthened/weakened by 5% against the USD with all other variables held constant, post-tax profit for the year would have been 2 million (31 December 2020: 3 million) higher/lower. Similarly, if RMB had strengthened/weakened by 5% against the JPY with all other variables held constant, post-tax profit for the year would have been 7 million (31 December 2020: 8 million) higher/lower.

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

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12 FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk: (Continued)

(b) Interest rate risk:

The Group's interest rate risk arises mainly from interest-bearing liabilities including borrowings, long-term payables and debentures payable. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2021, the Group's long-term interest bearing borrowings is USD-denominated with floating rates linked to six-month LIBOR, amounting to 58 million (Note 4(29)). As at 31 December 2021, the Group yet to complete the replacement of benchmark interest rate.

The Group's finance department at its headquarters continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial performance. The Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. During 2021 and 2020, the Group did not enter into any interest rate swap agreements.

The Group's and the Company's interest rate risk arises from long-term interest bearing borrowings are reflected in the following form, which including carrying amount of liabilities and classification at the balance sheet date.

	Fixed	Floating	Total
At 31 December 2021			
Short-term borrowings	145,852	–	145,852
Current portion of non-current liabilities			
Current portion of long-term borrowings	–	911,758	911,758
Current portion of long-term payables	15,357	20,198	35,555
Current portion of Debentures payable and interest	2,458	–	2,458
Long-term borrowings	–	7,197,167	7,197,167
Long-term payables	150,270	45,986	196,256
Debentures payable	250,000	–	250,000
	<hr/>	<hr/>	<hr/>
Total	563,937	8,175,109	8,739,046
	<hr/>	<hr/>	<hr/>

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

For the year ended 31 DECEMBER 2021
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12 FINANCIAL INSTRUMENT AND RISK (Continued)

(1) Market risk: (Continued)

(b) Interest rate risk: (Continued)

	Fixed	Floating	Total
At 31 December 2020			
Current portion of non-current liabilities			
Current portion of long-term borrowings	–	805,331	805,331
Current portion of long-term payables	15,756	19,350	35,106
Current portion of Debentures payable and interest	742,545	–	742,545
Long-term borrowings	–	4,227,894	4,227,894
Long-term payables	180,344	67,390	247,734
Debentures payable	1,098,848	–	1,098,848
	<u>2,037,493</u>	<u>5,119,965</u>	<u>7,157,458</u>
Total			

As at 31 December 2021, if interest rates on bank borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been lower/higher by 66 million (At 31 December 2020: 41 million).

The Group analyses its interest rate exposure by considering refinancing, renewal of existing positions and alternative financing resolution.

(2) Credit risk:

Credit risk of the Group arises from cash at bank and on hand, accounts receivable, other receivables and contract assets (accounting as other non-current assets) and long-term receivables etc. As at the balance sheet date, the carrying amount of the Group's financial assets represented the maximum exposure of the Group.

The Group expects that there is no significant credit risk associated with cash at bank and on hand since they are deposited at state-owned banks and other medium or large size listed banks with good reputation and high credit rating. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on accounts receivable, other receivables, contract assets and long-term receivables. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

As at the balance sheet date, the Group has no significant collateral or other credit enhancements held as a result of the debtor's mortgage (31 December 2020: Nil).

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12 FINANCIAL INSTRUMENT AND RISK (Continued)

(3) Liquidity risk:

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

(a) Financial liabilities analyzed by the maturity date and contractual cash flows:

The financial liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

	31 December 2021				Total	Carrying amount
	Within 1 year	1-2 years	2-5 years	Over 5 years		
Short-term borrowings	148,642	–	–	–	148,642	145,852
Long-term borrowings	1,235,513	1,832,027	3,772,860	3,013,273	9,853,673	8,108,925
Long-term payables	36,497	33,826	81,984	217,559	369,866	231,811
Accounts payables	429,522	–	–	–	429,522	429,522
Other payables	958,718	–	–	–	958,718	958,718
Lease liabilities	3,451	3,167	3,345	–	9,963	9,345
Debentures payable	12,125	12,125	284,354	–	308,604	252,458
	<u>2,824,468</u>	<u>1,881,145</u>	<u>4,142,543</u>	<u>3,230,832</u>	<u>12,078,988</u>	<u>10,136,631</u>

	31 December 2020				Total	Carrying amount
	Within 1 year	1-2 years	2-5 years	Over 5 years		
Long-term borrowings	1,008,415	816,994	1,873,550	2,664,569	6,363,528	5,033,225
Long-term payables	39,447	39,064	108,369	228,395	415,275	282,840
Accounts payables	294,973	–	–	–	294,973	294,973
Other payables	955,773	–	–	–	955,773	955,773
Debentures payable	818,102	56,870	1,118,957	–	1,993,929	1,841,393
	<u>3,116,710</u>	<u>912,928</u>	<u>3,100,876</u>	<u>2,892,964</u>	<u>10,023,478</u>	<u>8,408,204</u>

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12 FINANCIAL INSTRUMENT AND RISK (Continued)

(3) Liquidity risk: (Continued)

(b) Repayment periods for bank borrowings and other borrowings:

	31 December 2021		31 December 2020	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Within 1 year	1,057,610	38,013	805,331	776,499
1 to 2 years	1,560,567	31,135	645,730	29,188
2 to 5 years	3,264,669	317,758	1,500,982	1,176,901
Over 5 years	2,371,931	97,363	2,081,182	141,645
	<u>8,254,777</u>	<u>484,269</u>	<u>5,033,225</u>	<u>2,124,233</u>

13 FAIR VALUE ESTIMATES

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

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

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13 FAIR VALUE ESTIMATES (Continued)

(1) Assets and liabilities measured at fair value on a recurring basis:

As at 31 December 2021, the assets measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 3
Other equity instruments investment – Unlisted equity instrument investments of Tianjin Beifang Rencaigang Co., Ltd	<u>2,000</u>

As at 31 December 2020, the assets measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 3
Other equity instruments investment – Unlisted equity instrument investments of Tianjin Beifang Rencaigang Co., Ltd	<u>2,000</u>

The fair value of financial instruments traded in an active market is determined at the quoted market price; and the fair value of those not traded in an active market is determined by the Group using valuation technique. The valuation models used mainly comprise discounted cash flow model and market comparable corporate model. The inputs of the valuation technique mainly include liquidity discount.

The amount of financial instruments traded by the Group on active markets is not substantial.

(2) Assets and liabilities not measured at fair value but for which the fair value is disclosed

Financial assets and liabilities measured at amortised cost mainly include notes receivable, accounts receivable, other receivables, long-term receivables, accounts payables, short-term borrowings, long-term borrowings, debentures payable and long-term payables.

The carrying amount of the other financial assets and liabilities not measured at fair value is a reasonable approximation of their fair value.

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14 CAPITAL MANAGEMENT

The Group's capital management policies aim to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, refund capital to shareholders, issue new shares or sell assets to reduce debts.

Consistent with others in the industry, the Group monitors its capital by the debt-to-capital ratio. This ratio is calculated by taking net debt and dividing it by the total capital. Net debt represents total borrowings (including current and non-current borrowings, debentures payable, long-term payables and government loan of the Group) less cash and cash equivalents. Total capital is equity (as shown on the consolidated balance sheet) plus net debt.

The Group's strategy is to maintain a gearing ratio below 50%. The gearing ratio of the Group is as follows:

	31 December 2021	31 December 2020
Total borrowings	8,739,046	7,157,458
Short-term borrowings	145,852	–
Long-term borrowings	8,108,925	5,033,225
Debentures payable	252,458	1,841,393
Long-term payables	231,811	282,840
Less: Cash and cash equivalents	<u>(2,093,556)</u>	<u>(1,652,657)</u>
Net debt	<u>6,645,490</u>	<u>5,504,801</u>
Total equity	<u>8,104,070</u>	<u>7,581,643</u>
Total capital	<u>14,749,560</u>	<u>13,086,444</u>
Gearing ratio	<u>45%</u>	<u>42%</u>

As at 31 December 2021, the gearing ratio of the Group is increased compared to last year, which was mainly due to the increase of borrowings for new and upgrading projects.

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15 NOTES TO THE COMPANY FINANCIAL STATEMENTS

(1) Accounts receivable

	31 December 2021	31 December 2020
Accounts receivable	1,341,713	1,183,519
Less: Provision for bad debts	<u>(52,534)</u>	<u>(57,042)</u>
	<u>1,289,179</u>	<u>1,126,477</u>

The majority of the Group's business is carried out on credit, with credit periods of 30 to 90 days to customers generally.

(a) *The ageing analysis of trade receivable according to date recorded is as follows:*

	31 December 2021	31 December 2020
Within 1 year	1,230,663	1,119,758
1 to 2 years	64,534	25,758
2 to 3 years	11,979	13,471
3 to 4 years	13,141	21,969
4 to 5 years	18,839	1,357
Over 5 years	<u>2,557</u>	<u>1,206</u>
Total	<u>1,341,713</u>	<u>1,183,519</u>

(b) *As at 31 December 2021, the accounts receivable from the top five debtors in respect of outstanding balance are analysed as below:*

	Amount	Provision for bad debts	% of total balance
Accounts receivable from the top five debtors	<u>1,306,373</u>	<u>(48,128)</u>	<u>97%</u>

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15 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(1) Accounts receivable (Continued)

(c) Provision for bad debts:

For accounts receivable, the Group recognises the loss provision based on the lifetime ECL regardless of whether there exists a significant financing component.

(i) As at 31 December 2021, provision for bad debts by individual is analysed as below:

	Carrying amount	ECL rate	Provision	Reasons
Tianjin Water Authority Bureau	1,164,480	0.07%	(805)	Note 4 (3)(c)(i)
Tianjin City Appearance Sanitation Construction Development Co. Ltd.	17,923	72.05%	(12,913)	Note 4 (3)(c)(i)
Tianjin Ziya Environmental Protection Industrial Park Co. Ltd.	16,797	100.00%	(16,797)	Note 4 (3)(c)(i)
Tianjin Shuangkou Municipal Solid Waste Landfill	13,776	100.00%	(13,776)	Note 4 (3)(c)(i)
Tianjin City Investment Urban Resources Management Co., Ltd.	1,200	100.00%	(1,200)	Note 4 (3)(c)(i)
Tianjin Ziya Circular Economy Industry Investment Development Co., Ltd.	1,020	100.00%	(1,020)	Note 4 (3)(c)(i)
Tianjin Tianbao Municipal Administration Co. Ltd	152	100.00%	(152)	Note 4 (3)(c)(i)
Total	1,215,348		(46,663)	

11. Financial Statements prepared in accordance with the PRC Accounting Standards for Business Enterprises
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15 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(1) Accounts receivable (Continued)

(c) Provision for bad debts: (Continued)

(ii) Provision for bad debts made on a collective basis for accounts receivable were analysed as follows:

	31 December 2021			31 December 2020		
	Carrying amount Amount	Provision ECL rate	Amount	Carrying amount ECL rate	Provision Amount	Amount
Group 3 – Government clients						
Within credit period	–	–	–	7,762	0.05%	(4)
1-180 days overdue	12,580	3.55%	(446)	39,152	5.41%	(2,117)
>180 days overdue	81,535	4.42%	(3,607)	293	22.87%	(67)
	<u>94,115</u>		<u>(4,053)</u>	<u>47,207</u>		<u>(2,188)</u>
Group 4 – Other customers						
Within credit period	5,849	0.48%	(28)	5,333	6.85%	(365)
1-90 days overdue	6,824	2.40%	(164)	13,479	6.85%	(923)
>90 days overdue	19,577	8.30%	(1,626)	34,402	10.73%	(3,692)
	<u>32,250</u>		<u>(1,818)</u>	<u>53,214</u>		<u>(4,980)</u>

The provision for bad debts in 2021 collected or reversed RMB5 million. The ending balance was RMB53 million.

(2) Other receivables

	31 December 2021	31 December 2020
Dividends receivable from subsidiaries	36,710	–
Receivables from subsidiaries	19,862	20,010
Project deposits	2,536	2,212
VAT refund receivable	1,530	1,718
Others	1,159	1,959
	<u>61,797</u>	<u>25,899</u>
Less: Provision for bad debts	(56)	(16)
	<u>61,741</u>	<u>25,883</u>

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

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15 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

(a) *The ageing analysis of other receivable is as follow:*

	31 December 2021	31 December 2020
Within 1 year	58,032	22,892
1 to 2 years	1,558	1,696
2 to 3 years	896	7
Over 3 years	1,311	1,304
	<u>61,797</u>	<u>25,899</u>

(b) *As at 31 December 2021 and 31 December 2020, provision for bad debts of other receivables made on a collective basis which were all within stage 1 analysed as follows:*

	31 December 2021			31 December 2020		
	Carrying amount	Provision Amount	Percentage	Carrying amount	Provision Amount	Percentage
Group 1 – Related entities within the consolidation scope						
Within 1 year	55,014	–	0.00%	20,010	(13)	0.05%
1-2 years	<u>1,558</u>	<u>–</u>	<u>0.00%</u>	<u>–</u>	<u>–</u>	<u>0.00%</u>
Subtotal	<u>56,572</u>	<u>–</u>		<u>20,010</u>	<u>(13)</u>	
Group 5 – Project deposit						
Within 1 year	1,410	(27)	1.90%	286	–	0.05%
1-2 years	–	–	1.90%	800	–	0.05%
Over 3 years	<u>1,126</u>	<u>(21)</u>	<u>1.90%</u>	<u>1,126</u>	<u>(1)</u>	<u>0.05%</u>
Subtotal	<u>2,536</u>	<u>(48)</u>		<u>2,212</u>	<u>(1)</u>	
Group 6 – Others						
Within 1 year	79	(1)	0.69%	878	(1)	0.05%
1-2 years	–	–	0.69%	896	(1)	0.10%
2-3 years	895	(6)	0.69%	7	–	0.10%
Over 3 years	<u>185</u>	<u>(1)</u>	<u>0.69%</u>	<u>178</u>	<u>–</u>	<u>0.10%</u>
Subtotal	<u>1,159</u>	<u>(8)</u>		<u>1,959</u>	<u>(2)</u>	
Total	<u>60,267</u>	<u>(56)</u>		<u>24,181</u>	<u>(16)</u>	

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

For the year ended 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

15 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

(c) In 2021, the changes of other receivables' provision of the Company is not significant.

(d) As at 31 December 2021, other receivables from the top five debtors in respect of outstanding balance are analysed as below:

	Nature	Amount	Ageing	% of total balance	Provision for bad debts
Guizhou Capital Water Co., Ltd	Dividends receivable from subsidiaries	30,400	Within 1 year	49.19%	—
Tianjin Water Recycling Co., Ltd.	Amounts receivable from subsidiaries	17,510	Within 1 year	28.33%	—
Qijing Capital Water Co., Ltd.	Dividends receivable from subsidiaries	6,310	Within 1 year	10.21%	—
Tianjin State Taxation Bureau	VAT refund receivable	1,530	Within 1 year	2.48%	—
State Grid Tianjin electric power Co., Ltd.	Project deposits	1,000	Over 3 years	1.62%	(7)
Total		56,750		91.83%	(7)

(e) The government grants recognised on accrual basis as at 31 December 2021 are analysed as below:

Name	Amount	Ageing	Estimated time, amount and basis of collection
VAT refund	1,530	Within 1 year	It's expected to receive fully in 2022 because the nature is VAT refund.

(3) Long-term equity investments

	31 December 2021	31 December 2020
Investment in subsidiaries (a)	5,158,292	4,181,549
Associate (b)	195,000	195,000
Less: Impairment of Long-term equity investments (c)	(316,333)	(153,004)
	5,036,959	4,223,545

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

For the year ended 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

15 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) Subsidiaries

	Movement for the year						31 December 2021	Provision for impairment	Cash dividends declared in the current year
	Investment cost	31 December 2020	Additions	Disposals	Provision				
Bayannur Company	777,005	776,957	48	-	-	777,005	-	1,050	
Xi'an Capital Water Co., Ltd. (i)	476,292	424,000	52,292	-	-	476,292	-	5,000	
Fuyang Capital Water Co., Ltd. (i)	456,130	390,111	66,019	-	-	456,130	-	95,810	
Gaoyou Compro (ii)	382,912	-	382,912	-	(46,567)	336,345	(46,567)	-	
Jiangsu Yonghui (ii)	350,090	-	350,090	-	(53,092)	296,998	(53,092)	-	
Hangzhou Company	264,214	264,212	2	-	-	264,214	-	56,611	
Hefei Capital Water Co., Ltd.	206,078	205,957	121	-	-	206,078	-	-	
Wuhan Tianchuang Capital Water Co., Ltd.	197,268	197,229	39	-	-	197,268	-	18,813	
Tianjin Jiayuan Xingchuang Energy Technology Co., Ltd	191,841	191,600	241	-	-	191,841	-	20,000	
Jiuquan Capital Water Co., Ltd.	158,286	158,238	48	-	-	158,286	-	-	
Qijing Capital Water Co., Ltd.	155,039	154,918	121	-	-	155,039	-	17,310	
Guojin Company	128,504	128,323	181	-	-	128,504	-	-	
Guizhou Capital Water Co., Ltd	114,229	114,000	229	-	-	114,229	-	38,481	
Honghu Tianchuang Capital Water Co., Ltd.	111,717	111,631	86	-	-	111,717	-	-	
Karamay Tianchuang Capital Water Co., Ltd.	108,084	108,000	84	-	-	108,084	-	-	
Tianjin Water Recycling Co., Ltd.	100,714	100,436	278	-	-	100,714	-	79,730	
Wendeng Capital Water Co., Ltd.(i)	68,648	61,400	7,248	-	-	68,648	-	7,000	
Anhui Yuwan	63,670	63,670	-	-	(63,670)	-	(63,670)	-	
Xiqing Tianchuang Environmental Protection Co., Ltd.(iii)	62,106	-	62,106	-	-	62,106	-	-	
Shandong Tanchuang(iv)	60,500	-	60,500	-	-	60,500	-	-	
Baoying Capital Water Co., Ltd.	58,185	58,100	85	-	-	58,185	-	2,800	

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

For the year ended 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

15 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) Subsidiaries (Continued)

	Movement for the year						31 December 2021	Provision for impairment	Cash dividends declared in the current year
	Investment cost	31 December 2020	Additions	Disposals	Provision				
Deqing Capital Water Co., Ltd.	54,121	54,000	121	-	-	54,121	-	-	
Honghu Tianchuang Environmental Protection Co., Ltd.(iii)	53,400	-	53,400	-	-	53,400	-	-	
Yingshang Capital Water Co., Ltd.	53,084	53,000	84	-	-	53,084	-	2,000	
Dalian Oriental Chunliuhe Water Quality Purification Co., Ltd.	48,126	47,981	145	-	-	48,126	-	-	
Shandong Company (iv)	45,185	105,600	85	(60,500)	-	45,185	-	-	
Linxia Capital Water Co., Ltd.	45,036	45,000	36	-	-	45,036	-	-	
Changsha Tianchuang Environmental Protection Co., Ltd.	37,590	37,469	121	-	-	37,590	-	-	
Huoqiu Capital Water Co., Ltd.	37,240	37,155	85	-	-	37,240	-	-	
Hanshou Tianchuang Capital Water Co., Ltd.	33,848	33,750	98	-	-	33,848	-	-	
Huize Capital Water Co., Ltd.	32,732	32,660	72	-	-	32,732	-	-	
Tianjin Jing Hai Capital Water Co., Ltd	37,553	17,330	-	-	-	17,330	(20,223)	-	
Changsha Tianchuang Capital Water Co., Ltd.	17,002	17,002	-	-	-	17,002	-	-	
Caring Company	16,230	16,000	230	-	-	16,230	-	4,960	
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	62,987	12,706	-	-	-	12,706	(50,281)	-	
Tianjin Jinning Capital Water Co., Ltd.	22,560	7,560	-	-	-	7,560	(15,000)	-	
Dongying Tianchi Environmental Protection Technology Consultant Co., Ltd.	2,550	2,550	-	-	-	2,550	-	-	
Anguo Capital Water Co., Ltd.	41,000	-	-	-	-	-	(41,000)	-	
Tianjin Capital New Materials Co., Ltd.	26,536	-	36	-	-	36	(26,500)	-	
Total	5,158,292	4,028,545	1,037,243	(60,500)	(163,329)	4,841,959	(316,333)	349,565	

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

For the year ended 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

15 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) Subsidiaries (Continued)

- (i) In 2021, the Company increased capital of RMB52 million to its subsidiary Xi'an Capital Water Co., Ltd., RMB66 million to its subsidiary Fuyang Capital Water Co., Ltd., RMB7 million to its subsidiary Wendeng Capital Water Co., Ltd., for their own upgrading and deodorant projects and sewage treatment construction projects.
- (ii) In 2021, the Company invested RMB383 million to acquire Gaoyou Compro and RMB350 million to acquire Jiangsu Yonghui, with holding a 100% of the share for both two.
- (iii) In 2021, the Company contributed RMB62 million to establish Tianjin Xiqing Tianchuang Environmental Protection Co., Ltd. and RMB53 million to establish Honghu Tianchuang Environmental Protection Co., Ltd. With a 100% and 89% of the share, respectively.
- (iv) In 2021, the Company adopted the method of survival split-up to separate the Shandong Company. The original Shandong Tanchuang is a branch of Shandong Company while it is now a subsidiary of the Company. After the separation of the Company in Shandong, the shareholding ratio of the Company remains unchanged.
- (v) As at 31 December 2021, the Company increased its long-term equity investment of RMB3 million to its subsidiaries as a result of share-based payments.

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

For the year ended 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

15 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(b) Provision for impairment of long-term equity investments

	31 December 2020	Additions	Disposals	31 December 2021
Anhui Yuwan (i)	–	63,670	–	63,670
Jiangsu Yonghui (ii)	–	53,092	–	53,092
Gaoyou Compro (iii)	–	46,567	–	46,567
Tianjin Capital Environmental Protection (Hong Kong) Limited	50,281	–	–	50,281
Anguo Capital Water Co., Ltd.	41,000	–	–	41,000
Tianjin Capital New Materials Co., Ltd.	26,500	–	–	26,500
Tianjin Jing Hai Capital Water Co., Ltd	20,223	–	–	20,223
Tianjin Jinning Capital Water Co., Ltd.	15,000	–	–	15,000
	<u>153,004</u>	<u>163,329</u>	<u>–</u>	<u>316,333</u>

- (i) In 2021, since the amount of water price adjustment negotiated between the government and Anhui Yuwan was ultimately lower than expected and the profitability was reduced, the Company made an impairment provision of RMB64 million for long-term equity investment after conducting impairment assessment.
- (ii) Due to the outbreak of the COVID-19 epidemic in Yangzhou Jiangsu Province, related prevention and control measures, and the intensification of market competition, the business volume and unit price of Jiangsu Yonghui and Gaoyou Kangbo had dropped accordingly, the Company made an impairment provision of RMB53 million and RMB47 million for long-term equity investments after conducting impairment assessment.
- (iii) As at 31 December 2021, the Group's long-term equity investments included an investment in a subsidiary with carrying amount of RMB633 million (cost of RMB733 million) (December 31, 2020: Nil) which was pledge as collateral for long-term borrowings of RMB420 million (31 December 2020: Nil) (Note 4(26)(b)).

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

For the year ended 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

15 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(4) Capital surplus

	31 December 2020	Increase in the current year	Decrease in the current year	31 December 2021
Capital premium	380,788	–	–	380,788
Other capital surplus – Share-based payment included in the amount of shareholder’s equity	–	7,370	–	7,370
	<u>380,788</u>	<u>7,370</u>	<u>–</u>	<u>388,158</u>
	31 December 2019	Increase in the current year	Decrease in the current year	31 December 2020
Capital premium	<u>380,788</u>	<u>–</u>	<u>–</u>	<u>380,788</u>

(5) Undistributed profits

	2021	2020
Undistributed profits at the beginning of the year	3,057,638	2,663,106
Add: Net profit attributable to owners of the Company for the year	582,813	608,049
Less: Appropriation for statutory surplus reserve	(58,282)	(60,804)
Ordinary share dividends payable	<u>(171,267)</u>	<u>(152,713)</u>
Undistributed profits at the end of the year	<u>3,410,902</u>	<u>3,057,638</u>

Please refer to Note 11 for information on the actual cash dividends paid by the Company in 2021 and the cash dividends proposed for 2022, which is pending approval of the shareholders’ meeting.

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

For the year ended 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

15 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(6) Revenue and cost of sales

(a) Revenue from principal operations and cost of sales

	2021		2020	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operations	1,498,496	871,458	1,320,960	799,368
Other operations	107,293	80,586	167,247	128,440
	<u>1,605,789</u>	<u>952,044</u>	<u>1,488,207</u>	<u>927,808</u>

Analysis by the nature of services is as below:

	2021		2020	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Sewage water processing	1,435,998	864,338	1,258,356	792,248
Road tolls	62,498	7,120	62,604	7,120
	<u>1,498,496</u>	<u>871,458</u>	<u>1,320,960</u>	<u>799,368</u>

(b) Revenue from other operations and cost of sales

	2021		2020	
	Revenue from other operations	Cost of sales	Revenue from other operations	Cost of sales
Contract operation income	66,712	61,160	119,287	109,171
Technical service fee	30,539	3,233	35,422	3,751
Agent construction services	7,657	6,601	6,467	4,336
Rental (i)	2,271	9,592	3,131	9,592
Others	114	–	2,940	1,590
	<u>107,293</u>	<u>80,586</u>	<u>167,247</u>	<u>128,440</u>

(i) The company gets its rental income from renting its buildings and structures. As of 2021, there's no rental income recognized based on a certain portion of the lessee's sales revenue.

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

For the year ended 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

15 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(6) Revenue and cost of sales (Continued)

(c) *The Company's operating income is analysed as follows:*

	2021							Group
	Sewage water processing	Road tolls	Contract operation income	Rental	Agent construction services	Technical service fee	Others	
Revenue from main operations								
– Recognised over time	1,435,998	62,498	–	–	–	–	–	1,498,496
Revenue from other operations								
– Recognised over time	–	–	66,712	2,271	7,657	30,539	114	107,293
	<u>1,435,998</u>	<u>62,498</u>	<u>66,712</u>	<u>2,271</u>	<u>7,657</u>	<u>30,539</u>	<u>114</u>	<u>1,605,789</u>
	2020							Group
	Sewage water processing	Road tolls	Contract operation income	Rental	Agent construction services	Technical service fee	Others	
Revenue from main operations								
– Recognised over time	1,258,356	62,604	–	–	–	–	–	1,320,960
Revenue from other operations								
– Recognised over time	–	–	119,287	3,131	6,467	35,422	2,940	167,247
	<u>1,258,356</u>	<u>62,604</u>	<u>119,287</u>	<u>3,131</u>	<u>6,467</u>	<u>35,422</u>	<u>2,940</u>	<u>1,488,207</u>

As at 31 December 2021, service bills of the Company's sewage water processing service are regularly issued to customers, based on contract agreed price and actual sewage water treatment capacity. And the amount of bills represents the entity's progress toward complete satisfaction of the performance obligation to transfer each distinct good or service in the series to customers. And there is no consideration amount which is not included in the transaction price; thus it's not included in the required information to be disclosed for the transaction price allocated to the remaining performance obligation.

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

For the year ended 31 DECEMBER 2021
(All amounts in RMB thousand unless otherwise stated)

15 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(6) Revenue and cost of sales (Continued)

(c) *The Company's operating income is analysed as follows:* (Continued)

As at 31 December 2021, the performance obligation regarding a signed contract of commissioned contract operation services amounted to RMB10 million (31 December 2020: RMB91 million) was not fully completed and the Company expects that RMB8 million and RMB2 million will be recognised in 2022 and 2023 respectively; the performance obligation regarding a signed contract of agent construction services (31 December 2020: RMB6 million) was not completed; the performance obligation regarding a signed contract of road tolls service amounted to RMB447 million (31 December 2020: RMB509 million) was not fully completed and the Group expects to recognise RMB62 million as revenues in each of the years from 2022 to 2028, and RMB13 million in 2029.

(7) Investment income

	2021	2020
Dividend income from other equity instruments investment	349,565	334,557
Interest income from entrusted loans	14,035	21,946
	<u>363,600</u>	<u>356,503</u>

11. Financial Statements prepared in accordance with the PRC Accounting Standards for Business Enterprises Supplement of the Financial Statements

For the year ended 31 DECEMBER 2021
(All amounts in thousand unless otherwise stated)

1 STATEMENT OF NON-RECURRING PROFIT OR LOSS

	2021	2020
Government grants	91,839	96,577
Losses on scrapping of fixed assets	(686)	(46)
Net (losses)/gains on disposal of fixed assets	(22)	67
Other non-operating income and expenses – net	(264)	(4,702)
Reversal of provision for bad debts on individual basis	3,460	437
	94,327	92,333
Effect of corporate income tax	(15,781)	(15,506)
Effect of minority interests, net of tax	1,045	52
	79,591	76,879

Basis for preparation of statement of non-recurring profit or loss

Under the requirements in Explanatory Announcement No. 1 on Information Disclosure by Companies Offering Securities to the Public – Non-recurring Profit or Loss [2008] from China Security Regulatory Commission (“CSRC”), non-recurring profit or loss refers to those arises from transactions and events that are not directly relevant to ordinary activities, or that are relevant to ordinary activities, but are extraordinary and not expected to happen frequently that would have an influence to the financial statements users’ making economic decisions based on the financial performance and profitability of an enterprise.

2 RECONCILIATION STATEMENT OF INLAND AND ABROAD FINANCIAL STATEMENT

There is no difference between the financial statement of Group issued inside and outside the mainland China.

3 RETURN ON EQUITY AND EARNINGS PER SHARE

	Weighted average return on equity (%)		Basic/diluted earnings per share	
	2021	2020	2021	2020
Net profit attributable to ordinary shareholders of the Company	10.11	8.95	0.49	0.40
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	9.00	7.74	0.43	0.35
	9.00	7.74	0.43	0.35

12. List of Documents Available for Inspection

1. Financial statements with the signatures and seals of the officer in charge of the Company, the officer in charge of the accounting function, and the officer in charge of the accounting department (the accounting management officer)
2. Original of the audit report with the seal of the accounting firm and the signatures and seals of certified public accountants
3. Originals of all documents and announcements of the Company publicly disclosed on the website designated by the China Securities Regulatory Commission during the reporting period
4. Annual report published in other securities markets