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

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1065)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

§ 1 IMPORTANT

- 1.1 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 report does not contain any false information, misleading statements or material omissions, and accept joint and several responsibility for the truthfulness, accuracy and completeness of its contents.

This results announcement is the summary of the 2021 annual report of the Company and its subsidiaries (the “**Group**”). For detailed information, please read the 2021 annual report of the Group carefully.

- 1.2 PricewaterhouseCoopers Zhong Tian LLP audited the 2021 financial reports of the Group and have issued unqualified audit reports.
- 1.3 Mr. Liu Yujun, the Company’s chairman, Ms. Jing Wanying, the officer in charge of the accounting function, and Mr. 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.

§ 2 COMPANY PROFILE

2.1 Basic information

Short name of the A shares	創業環保
Stock code of the A shares	600874
Stock exchange for listing of the A shares	Shanghai Stock Exchange
Short name of the H shares	Tianjin Capital
Stock code of the H shares	1065
Stock exchange for listing of the H shares	The Stock Exchange of Hong Kong Limited

2.2 Contact person and method

	Company Secretary to the Board	Company Secretary in Hong Kong	Securities Affairs Representative
Name	Niu Bo	Mona Y. Y. Cho	Guo Fengxian
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§ 3 ACCOUNTING DATA AND FINANCIAL INDICATORS

3.1 Major accounting data

Unit: 0'000 Currency: RMB

Major accounting data	2021	2020	Increase/ Decrease for the period as compared to the same period	2019
			last year (%)	
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
			Increase/ Decrease as at the end of the period as compared to the end of the same period	
	As at the end of 2021	As at the end of 2020	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

3.2 Major financial indicators

Currency: RMB

Major financial indicators	2021	2020	Increase/ Decrease for the period as compared to the same period	2019
			last year (%)	
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

3.3 Extraordinary Profit and Loss Items

Unit: 0'000 Currency: RMB

Extraordinary Profit and Loss Item	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>

§ 4 DIRECTORS' REPORT

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) *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 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. Tianjin Water Recycling Co., Ltd.* (天津中水有限公司) (“**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 utilization 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 Capital Environmental Protection Technology Development Co., Ltd.* (山東創業環保科技發展有限公司) (“**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 Gaoyou Compro Environmental Resources Co., Ltd.* (高郵康博環境資源有限公司) (“**Compro Company**”) and Jiangsu Yonghui Resources Utilization Co., Ltd.* (江蘇永輝資源利用有限公司) (“**Yonghui Company**”) in the field of hazardous waste treatment, the Company has realized a new pattern of north-south correspondence; Tianjin Caring Technology Development Co., Ltd.* (天津凱英科技發展股份有限公司) (“**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 authorized 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 realize 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 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”.

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 Utilization” 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 utilization, and to introduce supporting policies to create demonstration projects, and to improve the recycling and resource utilization 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 utilization 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 approximately 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 BOT, TOT and PPP models in sewage treatment and water supply, the Company mainly obtained sales revenue from the production and sale of recycled water and the income from provision of recycled water pipeline connection services on recycled water business, which have not changed significantly compared with the 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.
- (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 utilization capacity of 73,000 tons/year, which were mainly distributed in Shandong Province and Jiangsu Province. Based on the premise of obtaining the hazardous waste operation permit, the Company chose waste-producing units to offer hazardous waste disposal services under the guide price of local governments and charged for hazardous waste disposal service by adopting a fully market-oriented operation mode.

- (3) 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 “CYFF 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 Utilization”, “Technical Scheme for Ecological Restoration of River Basins into the Sea”, “Technical Regulations for Energy Recovery and Utilization of Urban Sewage Materials” and “Carbon Sources for Sewage (Waste) Water Treatment”, which have further improved the company’s scientific R&D capabilities.
- (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

1. 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.
2. 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.
3. Reasons for the change in selling expenses: mainly due to the decreased consulting service fees.
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

Principal business by industry

Industry	Operating revenue	Operating cost	Gross profit margin (%)	Increase/ decrease in	Increase/ decrease in	Increase/ decrease in
				operating revenue compared with last year (%)	operating cost compared with last year (%)	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

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 Capital Water Co., Ltd.* (安國創業水務有限公司), Tianjin Jinning Capital Water Co., Ltd.* (天津靜海創業水務有限公司), Water Recycling Company, Caring Company, Tianjin Jiayuan Xingchuang Energy Technology Co., Ltd.* (天津佳源興創新能源科技有限公司) (“**Jiayuanxing**”), Tianjin Capital New Materials Co., Ltd., Hebei Guojin Tianchuang Sewage Treatment Co., Ltd.* (河北國津天創污水處理有限責任公司), Xiqing Tianchuang Environmental Protection Co., Ltd.* (西青天創環保有限公司) (“**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 Capital Water Co., Ltd.* (貴州創業水務有限公司), Qujing Capital Water Co., Ltd.* (曲靖創業水務有限公司) and Huize Capital Water Co., Ltd.* (會澤創業水務有限公司).

Note 6: The Northwest Region includes Xi’an Capital Water Co., Ltd.* (西安創業水務有限公司) (“**Xi’an Company**”), Karamay Tianchuang Capital Water Co., Ltd.* (克拉瑪依天創水務有限公司), Inner Mongolia Bayannur Capital Water Co., Ltd.* (內蒙古巴彥淖爾創業水務有限責任公司) (“**Bayannur Company**”), Linxia Capital Water Co., Ltd.* (臨夏市創業水務有限公司) and Jiuquan Capital Water Co., Ltd.* (酒泉創業水務有限公司). 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 Capital Water Co., Ltd.* (阜陽創業水務有限公司) (“**Fuyang Company**”), Wuhan Tianchuang Capital Environmental Protection Co., Ltd.* (武漢天創環保有限公司), Yingshang Capital Water Co., Ltd.* (潁上創業水務有限公司), Changsha Tianchuang Capital Water Co., Ltd.* (長沙天創水務有限公司), Anhui Capital Water Co., Ltd.* (安徽天創水務有限公司), Honghu Tianchuang Water Co., Ltd.* (洪湖市天創水務有限公司), Hefei Capital Water Co., Ltd.* (合肥創業水務有限公司), Hanshou Capital Water Co., Ltd.* (漢壽天創水務有限公司), Honghu Tianchuang Capital Environmental Protection Co., Ltd.* (洪湖市天創環保有限公司) (“**Honghu Tianchuang Capital Environmental Protection**”) and Huoqiu Capital Water Co., Ltd.* (霍丘創業水務有限公司). 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 Tianchuang Capital Water Co., Ltd.* (杭州天創水務有限公司) (“**Hangzhou Company**”), Baoying Capital Water Co., Ltd.* (寶應創業水務有限責任公司), Deqing Capital Water Co., Ltd.* (德清創業水務有限公司), 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 Oriental Chunliuhe Water Quality Purification Co., Ltd.* (大連東方春柳河水質淨化有限公司), Wendeng Capital Water Co., Ltd.* (文登創業水務有限公司) (“**Wendeng Company**”), Shandong Company, Dongying Tianchi Environmental Protection Technology Consultant Co., Ltd.* (東營天馳環保科技有限責任公司) and Shandong Tanchuang Environmental Protection Technology Development Co., Ltd.* (山東鄒創環保科技發展有限公司) (“**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) 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

		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 the same period last year (%)		
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 capitalization 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

		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 (%)		
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

		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 (%)		
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 RMB2,103.7115 million, accounting for 46.38% 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
Capitalized 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 capitalized research and development investment (%)	22.80

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.

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
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.

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) 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) Tianjin International Machinery Company* (天津國際機械公司) (“**International Machinery Company**”) is a company that Sino Legend Industries Limited (“**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 SASAC 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.

(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 utilization, 20 million cubic meters 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 cubic meters of recycled water per day, the sewage treatment rate of county cities will reach more than 95%, the recycling utilization 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 utilization 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 utilization has been significantly improved, the utilization scale has been continuously expanded and the comprehensive utilization 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.

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, enhance 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 cubic meters. 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.

The operational strategies for 2022 as follow:

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) 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

VIII. THE PROPOSAL ON THE PROFIT APPROPRIATION 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 realizable 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.

§ 5 FINANCIAL ACCOUNTING REPORT

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2021

(All amounts in RMB thousand unless otherwise stated)

	<i>Notes</i>	2021 RMB'000	2020 <i>RMB'000</i>
ASSETS			
Current assets			
Cash and cash equivalents		2,139,487	1,663,646
Notes receivables		8,123	2,656
Trade receivables	<i>10</i>	2,325,550	1,959,083
Prepayments		20,834	26,220
Other receivables		29,293	24,117
Inventories		21,828	17,460
Non-current assets due within one year		241,114	20,049
Other current assets		50,896	82,228
Total current assets		4,837,125	3,795,459
Non-current assets			
Long-term receivables		3,811,904	1,647,402
Long-term equity investments		195,000	195,000
Other equity instruments investment		2,000	2,000
Fixed assets		973,273	809,495
Construction in progress		29,660	9,859
Right-of-use assets		9,021	–
Intangible assets		10,331,691	11,999,818
Goodwill		405,461	–
Deferred income tax assets		19,268	12,965
Other non-current assets		450,889	330,971
Total non-current assets		16,228,167	15,007,510
Total assets		21,065,292	18,802,969
LIABILITIES			
Current liabilities			
Short-term borrowings		145,852	–
Trade payables	<i>11</i>	429,522	294,973
Contract liabilities	<i>3</i>	567,682	527,410
Wages payables		104,568	85,620
Taxes payable		47,291	56,841
Other payables		958,718	955,773
Non-current liabilities due within one year		957,139	1,596,263
Total current liabilities		3,210,772	3,516,880

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2021

(All amounts in RMB thousand unless otherwise stated)

	<i>Notes</i>	2021 RMB'000	2020 RMB'000
Non-current liabilities			
Long-term borrowings		7,197,167	4,227,894
Debentures payable		250,000	1,098,848
Lease liabilities		6,230	–
Long-term payables		196,256	247,734
Provisions		15,212	13,737
Deferred revenue		1,933,891	1,981,434
Deferred income tax liabilities		119,694	100,799
Other non-current liabilities		32,000	34,000
		<hr/>	<hr/>
Total non-current liabilities		9,750,450	7,704,446
		<hr/>	<hr/>
Total liabilities		12,961,222	11,221,326
		<hr/>	<hr/>
EQUITY			
Share capital		1,427,228	1,427,228
Capital surplus		437,949	431,024
Surplus reserve		677,336	619,054
Undistributed profits		4,577,685	4,114,045
		<hr/>	<hr/>
Total equity attributable to equity owners of the parent		7,120,198	6,591,351
Minority interests		983,872	990,292
		<hr/>	<hr/>
Total owners' equity		8,104,070	7,581,643
		<hr/>	<hr/>
Total liabilities and shareholder's equity		21,065,292	18,802,969
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 RMB'000	2020 RMB'000
Revenue	2	4,535,579	3,363,874
Less: Cost of sales	5	(3,188,296)	(2,185,119)
Tax expenses and surcharge	5	(44,698)	(48,769)
Selling expenses	5	(11,835)	(15,879)
Administrative expenses	5	(224,833)	(178,078)
Research and development expenses		(18,345)	(13,201)
Financial expenses-net	6	(116,692)	(239,100)
Including: interest expenses		(339,417)	(272,030)
interest income		193,656	23,035
Add: Other income	4	113,826	162,410
Investment income		-	-
including: investment income from associates		-	-
Credit impairment losses		4,144	(88,332)
Assets impairment losses		(151,819)	(34,808)
Gains on disposals of assets		(22)	67
Operating profit		897,009	723,065
Add: Non-operating income		1,173	1,807
Less: Non-operating expenses		(2,123)	(6,688)
Total profit		896,059	718,184
Less: Income tax expense	7	(177,049)	(112,046)
Net profit		719,010	606,138
Classified by continuity of operations			
Net profit from continuing operations		719,010	606,138
Net profit from discontinued operations		-	-
Classified by ownership of the equity			
Minority interests		25,821	36,099
Attributable to equity owners of the Company		693,189	570,039
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		719,010	606,138
Attributable to equity owners of the Company		693,189	570,039
Attributable to minority shareholders		25,821	36,099
Earnings per share for profit attributable to the owners of the Company (in RMB Yuan):			
Basic earnings per share	8	0.49	0.40
Diluted earnings per share	8	0.49	0.40

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENT

(All amounts in RMB thousand unless otherwise stated)

1 Basis of preparation

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

The financial statements are prepared on a going concern basis.

2 Segment information

The reportable segments of the Group are the business units that provide different products or service, or operate in the different areas. Different businesses or areas require different technologies and marketing strategies, the Group, therefore, separately manages the production and operation of each reportable segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance.

The Group considers the business from both service and geographical perspective. From a service perspective, management assesses the performance of processing of sewage water, recycled water, pipeline connection, heating and cooling service, sales of tap water and sale of environmental protection equipment. Processing of sewage water is further evaluated on a geographical basis (Tianjin plants, Hangzhou plant and other plants). The environmental protection equipment sold by the Group is mainly the result of scientific research transformation of the technical know-how in the environment protection area. Other services include hazardous waste treatment service, contract operation services and technical services etc. These are not separately presented within the reportable operating segments, but included in the ‘all other segments’ column. The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment’s revenue.

(i) *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 related facilities construction cooling supply	Tap water and water plant facilities construction	Sale of Environmental protection equipment	All other segments (iv)	Group
	Tianjin plants	Hangzhou plant	Other plants						
Revenue from external customers	1,481,307	261,007	1,609,501	337,044	102,354	149,716	52,752	541,898	4,535,579
Cost for operations	(872,503)	(166,000)	(1,314,498)	(209,258)	(68,981)	(115,254)	(39,003)	(402,799)	(3,188,296)
Interest income	54,756	442	115,059	4,386	1,152	8,019	1,078	8,764	193,656
Interest expenses	(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
Amortization	(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)
Non-current assets addition (iii)	201,762	140	549,822	7,805	14,661	1,318	536	35,452	811,496

(ii) Segment information as at and for the year ended 31 December 2020 is as follows:

	Sewage water processing			Recycled water and pipeline connection	Heating and cooling supply	Tap water	Sale of Environmental protection equipment	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants						
Revenue from external customers	1,270,965	259,286	862,236	317,109	100,610	99,299	43,232	411,137	3,363,874
Cost for operations	(802,567)	(160,279)	(591,233)	(226,520)	(67,103)	(80,755)	(14,829)	(241,833)	(2,185,119)
Interest income	12,536	877	3,184	4,130	478	30	1,503	297	23,035
Interest expenses	(176,528)	(5,662)	(77,468)	(696)	(1,945)	(768)	-	(8,963)	(272,030)
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)
Non-current assets addition (iii)	16,322	-	700,661	13,570	32,284	28,154	21	103,918	894,930

(iii) 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 approximately RMB1,436 million is derived from a single customer, accounting for 32% of the Group's total revenue (2020: approximately RMB1,258 million, 37%).

(iv) The segment not losses of all other segments include the impairment losses of goodwill amounting to approximately RMB100 million.

3 Contract Liabilities

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
For pipeline connection service	515,301	509,271
For hazard waste treatment	38,017	3,145
Others	14,364	14,994
	<u>567,682</u>	<u>527,410</u>

In 2021, the amount of approximately RMB212 million (2020: approximately RMB236 million) which is included in the opening balance of contract liabilities has recognised into revenue. The Group expects that contract liabilities will be carried forward to recognize revenue through normal operating processes, and therefore will be recognized as current liabilities.

4 Other income

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Government grants	91,839	96,577
VAT refund	21,813	65,700
Personal income tax refund	174	133
	<u>113,826</u>	<u>162,410</u>

5 Expenses by nature

Expenses included in cost of sales, distribution costs and administrative expenses are analysed as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Franchise construction expenses	726,077	–
Amortisation – intangible assets	550,728	518,939
Employee benefit expenses	457,266	377,319
Less: cost in franchise 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
Office expenses	10,970	10,251
Toll road management fee	7,120	7,120
Expenses of secretary of the board	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
	3,443,309	2,392,277

6 Finance costs – net

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest expenses on borrowings	375,544	311,736
Add: Interest on lease liabilities	439	–
Less: Capitalised interest	<u>(36,566)</u>	<u>(39,706)</u>
Finance costs	339,417	272,030
Less: Interest income	(193,656)	(23,035)
<i>Including: long-term receivables</i>	(178,916)	(8,631)
<i>bank deposits</i>	(14,740)	(14,404)
Net exchange (gains)/losses-net (a)	(30,648)	(10,490)
Others	<u>1,579</u>	<u>595</u>
	<u>116,692</u>	<u>239,100</u>

- (a) As at 31 December 2021, the exchange gains of long-term payables of the Group calculated in Japanese yen and US dollars is approximately RMB31 million (2020: approximately RMB10 million).

7 Income tax expense

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current income tax calculated based on tax law and related regulations	172,722	145,590
Deferred income tax	<u>4,327</u>	<u>(33,544)</u>
	<u>177,049</u>	<u>112,046</u>

8 Earnings per share

- (a) Basic earnings per share is calculated based on the profit attributable to owners of the Company of approximately RMB693 million (2020: RMB570 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2020: 1,427 million shares).

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit attributable to owners of the Company	693,189	570,039
Weighted average number of ordinary shares in issue (thousand shares)	1,427,228	1,427,228
Basic and diluted earnings per share (RMB Yuan)	<u>0.49</u>	<u>0.40</u>
Including:		
– Basic earnings per share for operations on a going concern	0.49	0.40
– Basic earnings per share for discontinued operations	<u>–</u>	<u>–</u>

- (b) Diluted earnings per share is calculated by adjusting weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has no dilutive potential ordinary shares.

Therefore, diluted earnings per share equal to basic earnings per share.

9 Dividends

(i) Ordinary shares

	2021 RMB'000	2020 RMB'000
Final dividend for the year ended 31 December 2020 of 12.0 cents (2019 – 10.7 cents) per fully paid share	171,267	152,713
Dividends paid in cash in the year	<u>171,267</u>	<u>152,713</u>

(ii) Dividends not recognised at the end of the reporting period

	2021 RMB'000	2020 RMB'000
In addition to the above dividends, since year end the directors of the Company have recommended the payment of a final dividend of 14.6 cents per fully paid ordinary share (2020: 12.0 cents). The aggregate amount of the proposed dividend expected to be paid before 31 July 2022 out of retained earnings at 31 December 2021, but not recognised as a liability at year end, is	<u>208,375</u>	<u>171,267</u>

10 Trade receivables

	31 December 2021 RMB'000	31 December 2020 RMB'000
Trade receivables	2,503,473	2,127,612
Less: loss allowance (ii)	<u>(177,923)</u>	<u>(168,529)</u>
	<u>2,325,550</u>	<u>1,959,083</u>

The majority of the Group's sales are on credit with 30 to 90 days credit terms.

(i) The ageing analysis of the trade receivables based on invoice date were as follows:

	31 December 2021 RMB'000	31 December 2020 RMB'000
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
More than 5 years	<u>18,631</u>	<u>9,348</u>
Total	<u>2,503,473</u>	<u>2,127,612</u>

(ii) Impairment and risk exposure

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

On that basis, the loss allowance as at 31 December 2021 was determined as follows for trade receivables:

By individual:

31 December 2021	Carrying amount RMB'000	Expected credit loss rate	Loss allowance RMB'000
Tianjin Water Authority Bureau	1,164,480	0.07%	(805)
Qijing Sewage Company	231,753	22.25%	(51,555)
Hangzhou City Water Facilities and River Protection Management Center	81,383	0.08%	(67)
Xi'an Infrastructure Investment Group	52,974	0.09%	(49)
Guiyang Water Authority Bureau	43,622	0.08%	(38)
Jinghai Development Area Management Committee	31,569	52.88%	(16,693)
Tianjin City Appearance Sanitation Construction Development Co. Ltd	17,923	72.05%	(12,913)
Tianjin Ziya Environmental Protection Industrial Park Co. Ltd	16,797	100.00%	(16,797)
Tianjin Shuangkou Municipal Solid Waste Landfill	13,776	100.00%	(13,776)
Urad Front Banner Finance Bureau	10,928	100.00%	(10,928)
Urad Rear Banner Finance Bureau	10,392	100.00%	(10,392)
Zhejiang New No.3 Printing&dyeing Co. Ltd	5,733	65.03%	(3,728)
Tianjin Goldin International Club Co. Ltd.	1,548	100.00%	(1,548)
Inner Mongolia Zijin Zinc Industry Co., Ltd	1,314	100.00%	(1,314)
Tianjin City Investment Urban Resources Management Co., Ltd.	1,200	100.00%	(1,200)
Tianjin Ziya Circular Economy Industry Investment Development Co., Ltd.	1,020	100.00%	(1,020)
Tianjin Tianbao Municipal Administration Co. Ltd	152	100.00%	(152)
Total	1,686,564		(142,975)

Group – Non-provincial government customers

	31 December 2021			31 December 2020		
	Carrying amount	Provision		Carrying amount	Provision	
		ECL rate	Amount		ECL rate	Amount
Undue	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 – Others

	31 December 2021			31 December 2020		
	Carrying amount	Provision		Carrying amount	Provision	
		ECL rate	Amount		ECL rate	Amount
Undue	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>

As at 2021, the amount of bad debt provision made by the Group is approximately RMB19 million, the amount of bad debt provision recovered is collected approximately RMB3 million, and the corresponding book balance of bad debt provision is approximately RMB178 million.

11 Trade payables

	31 December 2021 RMB'000	31 December 2020 RMB'000
Trade payables (a)	<u>429,522</u>	<u>294,973</u>

(a) As at 31 December 2021, the trade payable with aging more than 1 year are approximately RMB101 million (2020: approximately RMB89 million), which mainly including source water charges payable by Qujing Company of approximately RMB57 million, and the subcontract costs payable by Tianjin Water Recycling Co., Ltd of approximately RMB27 million. As the Group has not yet recovered the relevant sewage treatment charges and the related projects have not yet been completed, the Group has not settled the related payable balances.

(b) The ageing ending of trade payables based on supplier's invoice date is as below:

	31 December 2021 RMB'000	31 December 2020 RMB'000
Within 1 year	328,642	205,716
Over due more than 1 year	<u>100,880</u>	<u>89,257</u>
	<u>429,522</u>	<u>294,973</u>

§ 6 SALE AND PURCHASE OR REDEMPTION OF SECURITIES OF THE COMPANY

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

§ 7 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 year, in compliance with the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

§ 8 MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

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

§ 9 PUBLIC FLOAT

As at the date of this announcement, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

§ 10 PRE-EMPTIVE RIGHTS

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

§ 11 AUDIT COMMITTEE

On 31 July 2001, the Board approved the establishment of the audit committee (the “**Audit Committee**”) to review and supervise the financial reporting procedures and internal controls of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the year ended 31 December 2021 with the Directors.

§ 12 REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31 December 2021 as set out in this announcement have been agreed by the Group's auditor, PricewaterhouseCoopers Zhong Tian LLP, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers Zhong Tian LLP in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers Zhong Tian LLP on this preliminary announcement.

By order of the Board
Liu Yujun
Chairman

Tianjin, the PRC
24 March 2022

As at the date of this announcement, the Board comprises three executive Directors: Mr. Liu Yujun, Ms. Wang Jing and Mr. Niu Bo; three non-executive Directors: Mr. Gu Wenhui, Mr. Si Xiaolong and Mr. Liu Tao; and three independent non-executive Directors: Mr. Xu Zhiming, Mr. Guo Yongqing and Ms. Lu Yingying.

* *For identification purposes only*