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Kunming Dianchi Water Treatment Co., Ltd.

昆明滇池水务股份有限公司

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

(Stock Code: 3768)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2025

FINANCIAL SUMMARY

For the year ended 31 December 2025, the Group's:

- revenue amounted to approximately RMB1,479.6 million, representing a decrease of 7.2% from 2024. The total volume of wastewater treated for the year was 652.7 million m³, with a wastewater treatment facility utilisation rate of 95.9%; and
- net profit attributable to equity holders of the Company amounted to approximately RMB196.2 million, representing a decrease of 25.5% from 2024.

As at 31 December 2025, the Group's:

- total assets amounted to RMB13,435.9 million, representing an increase of 8.5% from RMB12,384.0 million as at 31 December 2024; and
- total equity was RMB5,434.8 million, representing an increase of 3.7% from RMB5,242.3 million as at 31 December 2024.

The board (the “**Board**”) of directors (the “**Directors**”) of Kunming Dianchi Water Treatment Co., Ltd. (the “**Company**”) hereby announces the audited results of the Company and its subsidiaries (collectively, the “**Group**”, “**we**”, “**us**” or “**our**”) for the year ended 31 December 2025 (the “**Reporting Period**”), together with the comparative financial figures for the year ended 31 December 2024, as follows:

I. CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2025

	Notes	Year ended 31 December	
		2025	2024
		RMB'000	RMB'000
Revenue	3(a)	1,479,552	1,594,164
Cost of sales	4	<u>(772,659)</u>	<u>(880,513)</u>
Gross profit		706,893	713,651
Selling expenses	4	(1,152)	(1,139)
Administrative expenses	4	(51,429)	(76,135)
Research and development expenses	4	(354)	–
Net impairment losses on financial assets		(173,961)	(129,040)
Net other income	5	7,256	23,076
Other losses	6	<u>(62,724)</u>	<u>(5,505)</u>
Operating profit		424,529	524,908
Finance income	7	45,231	48,038
Finance costs	7	<u>(237,227)</u>	<u>(263,627)</u>
Finance costs – net	7	<u>(191,996)</u>	<u>(215,589)</u>
Share of results of associates		<u>3,669</u>	<u>5,035</u>
Profit before taxation		236,202	314,354
Income tax expense	8	<u>(39,331)</u>	<u>(50,426)</u>
Profit for the year		196,871	263,928

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

		Year ended 31 December	
		2025	2024
	<i>Notes</i>	RMB'000	<i>RMB'000</i>
Other comprehensive (loss) income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation of foreign operation		<u>(432)</u>	<u>1,116</u>
		<u>(432)</u>	<u>1,116</u>
Total comprehensive income for the year		<u>196,439</u>	<u>265,044</u>
Profit attributable to:			
– Equity holders of the Company		196,206	263,222
– Non-controlling interests		<u>665</u>	<u>706</u>
		<u>196,871</u>	<u>263,928</u>
Total comprehensive income attributable to:			
– Equity holders of the Company		195,774	264,338
– Non-controlling interests		<u>665</u>	<u>706</u>
		<u>196,439</u>	<u>265,044</u>
Earnings per share for profit attributable to equity holders of the Company			
<i>(expressed in RMB per share)</i>			
– Basic and diluted earnings per share	<i>10</i>	<u>0.19</u>	<u>0.26</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2025

	<i>Notes</i>	2025 RMB'000	2024 RMB'000
Non-current assets			
Investment properties		221,485	246,702
Right-of-use assets/land use rights		358,746	368,565
Property, plant and equipment		2,287,267	2,288,351
Receivables under service concession arrangements	<i>11</i>	1,347,082	1,688,687
Amounts due from customers for construction contracts	<i>12</i>	842,026	550,792
Trade and other receivables	<i>13</i>	223,514	–
Contract assets		241,463	223,052
Intangible assets		872,457	825,554
Interests in associates		69,395	65,726
Deferred tax assets		134,526	110,075
		6,597,961	6,367,504
Current assets			
Receivables under service concession arrangements	<i>11</i>	18,873	19,496
Amounts due from customers for construction contracts	<i>12</i>	47,107	24,581
Inventories		6,642	6,212
Financial assets at amortised cost		59,400	119,600
Trade and other receivables	<i>13</i>	6,668,835	5,809,617
Restricted funds		3,501	25,965
Cash and bank balances		33,629	10,977
		6,837,987	6,016,448
Current liabilities			
Trade and other payables	<i>14</i>	1,846,713	1,984,442
Contract liabilities		13,772	30,127
Tax payables		257,932	190,597
Borrowings		3,030,567	2,490,841
		5,148,984	4,696,007
Net current assets		1,689,003	1,320,441
Total assets less current liabilities		8,286,964	7,687,945

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	2025 <i>RMB'000</i>	2024 <i>RMB'000</i>
Non-current liabilities		
Deferred revenue	654,746	306,653
Borrowings	2,161,505	2,098,338
Deferred tax liabilities	35,871	40,661
	<u>2,852,122</u>	<u>2,445,652</u>
NET ASSETS	<u><u>5,434,842</u></u>	<u><u>5,242,293</u></u>
Capital and reserves		
Share capital	1,029,111	1,029,111
Other reserves	1,659,089	1,644,580
Accumulated profits	2,735,444	2,558,069
	<u>5,423,644</u>	<u>5,231,760</u>
Equity attributable to equity holders of the Company	<u>5,423,644</u>	5,231,760
Non-controlling interests	<u>11,198</u>	<u>10,533</u>
TOTAL EQUITY	<u><u>5,434,842</u></u>	<u><u>5,242,293</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2025

1. GENERAL

Kunming Dianchi Water Treatment Co., Ltd. (the “**Company**”) was incorporated in Yunnan Province of the People’s Republic of China (“**PRC**”) on 23 December 2010 as a joint stock company with limited liabilities under the Company Law of the PRC and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The registered office of the Company is located at Wastewater Treatment Plant No. 7, Kunming Dianchi Tourist Resort.

As at 31 December 2025, the directors of the Company consider the Company’s immediate and ultimate holding company is Kunming Dianchi Investment Co., Ltd. (昆明滇池投資責任有限公司, “**KDI**”), a state-owned enterprise established in the PRC.

The Company and its subsidiaries (together, the “**Group**”) are principally engaged in the development, design, construction, operation and maintenance of water supply and wastewater treatment facilities in the PRC.

2. PRINCIPAL ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards issued by the International Accounting Standards Board (the “**IASB**”), which collective term includes all applicable individual IFRS Accounting Standards, IAS Standards and IFRIC Interpretations issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). There is no significant difference between the data recognised through the IFRS Accounting Standards and the data recognised in accordance with the Chinese Accounting Standards.

Application of amendments to IFRS Accounting Standards

The Group has applied, for the first time, the following new/revised IFRS Accounting standards that are relevant to the Group:

Amendments to IAS 21	Lack of Exchangeability
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Amendments to IAS 21: Lack of Exchangeability

The amendments require an entity to apply a consistent approach to assessing whether a currency is exchangeable into another currency and, when it is not, to determining the exchange rate to use and the disclosures to provide.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Amendments to IFRS Accounting Standards issued but not yet effective

At the date of approving these consolidated financial statements, the IASB has issued a number of revised IFRS Accounting Standards that are not yet effective for the current year and which the Group has not early adopted. These include the followings which may be relevant to the Group.

Amendments to IFRS 9 and IFRS 7	Amendments to the Classification and Measurement of Financial Instruments ⁽¹⁾
Annual Improvements to IFRS Accounting Standards	Volume 11 ⁽¹⁾
Amendments to IFRS 9 and IFRS 7	Contracts Referencing Nature-dependent Electricity ⁽¹⁾
IFRS 18	Presentation and Disclosure in Financial Statements ⁽²⁾
IFRS 19	Subsidiaries without Public Accountability: Disclosures ⁽²⁾
Amendments to IAS 21	Translation to Hyperinflationary Presentation Currency ⁽²⁾
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽³⁾

⁽¹⁾ Effective for annual periods beginning on or after 1 January 2026

⁽²⁾ Effective for annual periods beginning on or after 1 January 2027

⁽³⁾ The effective date to be determined

The directors do not anticipate that the adoption of the new/revised IFRS Accounting Standards in future periods will have any material impact on the results of the Group.

Basis of measurement

The measurement basis used in the preparation of these consolidated financial statements is historical cost basis, except for investment properties which are measured at fair value as explained in the accounting policy set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Non-controlling interests are presented, separately from equity holders of the Company, in the consolidated statement of profit or loss and other comprehensive income and within equity in the consolidated statement of financial position. The non-controlling interests in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, are measured initially either at fair value or at the present ownership instrument's proportionate share in the recognised amounts of the acquiree's identifiable net assets. This choice of measurement basis is made on an acquisition-by-acquisition basis. Other types of non-controlling interests are initially measured at fair value, unless another measurement basis is required by IFRS Accounting Standards.

Allocation of total comprehensive income

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interests. Total comprehensive income is attributed to the equity holders of the Company and the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Changes in ownership interests

Changes in the Group's ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost; and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests at the date when control is lost. The amounts previously recognised in other comprehensive income in relation to the disposed subsidiary are accounted for on the same basis as would be required if the holding company had directly disposed of the related assets or liabilities. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary are accounted for as a financial asset, associate, joint venture or others as appropriate from the date when control is lost.

Subsidiaries

A subsidiary is an entity that is controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less accumulated impairment losses, if any. The carrying amount of the investments is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The Group's interests in associate is accounted for under the equity method of accounting, except when the investment or a portion thereof is classified as held for sale. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the investee's net assets and any impairment loss relating to the investment. Except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee, the Group discontinues recognising its share of further losses when the Group's share of losses of the investee equals or exceeds the carrying amount of its interest in the investee, which includes any long term interests that, in substance, form part of the Group's net investment in the investee.

Goodwill arising on an acquisition of an associate is measured as the excess of the cost of investment over the Group's share of the net fair value of the identifiable assets and liabilities of the acquired associate. Such goodwill is included in interests in associates. On the other hand, any excess of the Group's share of its net fair value of identifiable assets and liabilities over the cost of investment is recognised immediately in profit or loss as an income.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investees, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

3. REVENUE AND SEGMENT INFORMATION

(a) Revenue

	For the year ended 31 December	
	2025 RMB'000	2024 RMB'000
Revenue disaggregated by major products or service lines		
Wastewater treatment	1,058,064	1,151,793
Operating services – under TOO/BOO model	906,478	897,723
Operating services – under TOT/BOT model	98,973	117,989
Construction services – under BT model	29	20,714
Construction services – under BOT model	4,256	64,241
Finance income	48,328	51,126
Reclaimed water supply and running water supply	179,122	174,379
Operating services – under TOO/BOO model	30,352	28,251
Operating services – under TOT/BOT model	60,962	73,597
Construction services – under BT model	3,934	7,192
Construction services – under BOT model	1,293	30,190
Finance income	82,581	35,149
Others	242,366	267,992
Management services	182,450	177,629
Transportation services	817	462
Construction services – under BT model	–	1,790
Construction services – under BOT model	3,464	8,619
Thermal production	14,850	13,476
Others	40,785	66,016
	1,479,552	1,594,164

Except for the finance income, all the other revenue represent revenue from contracts with customers within the scope of IFRS 15.

All the above revenue is recognised over time except for revenue from water supply operation and thermal production, which are recognised at a point in time.

“BOO” Build-Own-Operate, a project model in which an enterprise undertakes the financing, design, construction of wastewater treatment or water supply facilities, which are owned by the enterprise, and has the right to operate such facilities in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns, according to the concession agreement entered into by the enterprise and the government

“BOT” Build-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the rights to undertake the financing, design, construction, operation and maintenance of wastewater treatment or water supply facilities in a concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or water to cover its costs of investment, operation and maintenance and obtain reasonable returns while, upon the expiration of the concession period, the relevant facilities will be transferred back to the government at nil consideration

3. REVENUE AND SEGMENT INFORMATION (Continued)

(a) Revenue (Continued)

“BT”	Build and Transfer, a project model whereby an enterprise undertakes the financing, design and construction of a facility for the proprietor for certain fees to be paid during and upon the completion of the construction
“TOO”	Transfer-Own-Operate, a project model whereby an enterprise purchases completed wastewater treatment or water supply facilities from the government and undertakes the operation of such facilities owned by the enterprise in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns according to the concession agreement entered into by the enterprise and the government
“TOT”	Transfer-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the property rights or operation rights of constructed wastewater treatment or water supply facilities in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns while, upon the expiration of the concession period, the relevant facilities will be transferred back to the government at nil consideration

(b) Segment information

The directors of the Company have been identified as the chief operating decision-maker of the Company. The management has determined the operating segments based on reports reviewed by the directors of the Company for the purpose of allocating resources and assessing performance.

The directors of the Company determine the business from the product and service perspective. The Group’s reportable segments are as follows:

- Wastewater treatment;
- Water supply; and
- Others, including management services, transportation services, construction services, thermal production and treasury functions.

The directors of the Company assess the performance of the operating segments based on the measurement of revenue and operating profit.

This measurement basis excludes fair value gain on financial liabilities at FVPL, finance income, finance costs, impairment loss on interests in associates and share of results of associates.

Unallocated assets consist of deferred tax assets and interests in associates. Unallocated liabilities consist of financial liabilities at FVPL, deferred tax liabilities and income tax payable.

Capital expenditure comprises mainly additions to right-of-use assets/land use rights, property, plant and equipment and intangible assets.

3. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

Segment revenue and result (i.e. the operating profit) and other information for the year ended 31 December 2025 are presented as below:

	Wastewater treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers	<u>1,058,064</u>	<u>179,122</u>	<u>242,366</u>	<u>1,479,552</u>
Segment gross profit	<u>465,191</u>	<u>90,896</u>	<u>150,806</u>	<u>706,893</u>
Segment profit	<u>263,303</u>	<u>56,730</u>	<u>104,496</u>	<u>424,529</u>
Finance income				45,231
Finance costs				(237,227)
Share of results of associates				<u>3,669</u>
Profit before taxation				236,202
Income tax expense				<u>(39,331)</u>
Profit for the year				<u><u>196,871</u></u>
Other segment information included in the measurement of segment profit or segment assets:				
Depreciation of property, plant and equipment	199,147	11,978	1,207	212,332
Depreciation of right-of-use assets	9,752	67	–	9,819
Fair value loss on investment properties	–	–	25,217	25,217
Impairment loss on trade receivables	56,128	17,263	2,881	76,272
Impairment loss on financial assets at amortised cost	–	–	60,000	60,000
Impairment loss on other receivables	20,460	3,462	4,693	28,615
(Reversal of) impairment loss on receivables under service concession arrangements	3,520	(5,264)	(103)	(1,847)
Impairment loss on contract assets	1,330	–	–	1,330
(Reversal of) impairment loss on amounts due from customers for construction contracts	(832)	10,423	–	9,591
Amortisation of intangible assets	11,714	31,508	14,393	57,615
Repair and maintenance costs	43,046	1,524	1,856	46,426
Capital expenditures	<u>213,976</u>	<u>68,982</u>	<u>–</u>	<u>282,958</u>

3. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

Segment assets and liabilities as at 31 December 2025 are presented below:

	Wastewater treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	<u>9,460,899</u>	<u>1,601,075</u>	<u>2,170,053</u>	<u>13,232,027</u>
Unallocated:				
Deferred tax assets				134,526
Interests in associates				<u>69,395</u>
Total assets				<u><u>13,435,948</u></u>
Segment liabilities	<u>5,510,722</u>	<u>932,583</u>	<u>1,263,998</u>	<u>7,707,303</u>
Unallocated:				
Deferred tax liabilities				35,871
Tax payables				<u>257,932</u>
Total liabilities				<u><u>8,001,106</u></u>

3. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

Segment revenue and result (i.e. the operating profit) and other information for the year ended 31 December 2024 are presented as below:

	Wastewater treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers	<u>1,151,793</u>	<u>174,379</u>	<u>267,992</u>	<u>1,594,164</u>
Segment gross profit	<u>501,713</u>	<u>60,042</u>	<u>151,896</u>	<u>713,651</u>
Segment profit	<u>364,118</u>	<u>37,905</u>	<u>122,885</u>	<u>524,908</u>
Finance income				48,038
Finance costs				(263,627)
Share of results of associates				<u>5,035</u>
Profit before taxation				314,354
Income tax expense				<u>(50,426)</u>
Profit for the year				<u><u>263,928</u></u>
Other segment information included in the measurement of segment profit or segment assets:				
Depreciation of property, plant and equipment	199,701	12,036	604	212,341
Depreciation of right-of-use assets	9,748	71	–	9,819
Fair value loss on investment properties	–	–	21,153	21,153
Impairment loss on trade receivables	22,666	28,388	2,184	53,238
Impairment loss on financial assets at amortised cost	–	–	60,000	60,000
Impairment loss on other receivables	12,215	1,849	2,843	16,907
Impairment loss on (reversal of) receivables under service concession arrangements	822	616	(1,105)	333
Impairment loss on contract assets	2,040	–	–	2,040
Impairment loss on (reversal of) amounts due from customers for construction contracts	157	(3,635)	–	(3,478)
Amortisation of intangible assets	9,626	42,431	14,495	66,552
Repair and maintenance costs	29,721	498	973	31,192
Capital expenditures	<u>28,007</u>	<u>45,238</u>	<u>87,945</u>	<u>161,190</u>

3. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

Segment assets and liabilities as at 31 December 2024 are presented below:

	Wastewater treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	<u>9,607,259</u>	<u>1,814,154</u>	<u>786,738</u>	<u>12,208,151</u>
Unallocated:				
Deferred tax assets				110,075
Interests in associates				<u>65,726</u>
Total assets				<u><u>12,383,952</u></u>
Segment liabilities	<u>5,178,196</u>	<u>549,797</u>	<u>1,182,408</u>	<u>6,910,401</u>
Unallocated:				
Deferred tax liabilities				40,661
Tax payables				<u>190,597</u>
Total liabilities				<u><u>7,141,659</u></u>

(c) Geographical information

The Group's operations are principally located in the PRC. Hence, geographical segment information is not considered necessary.

(d) Information about major customers

The major customers whose revenue amounted to 10% or more of the Group's total revenue were as below:

	2025 <i>RMB'000</i>	2024 <i>RMB'000</i>
Revenue from wastewater treatment segment		
Customer A	875,950	885,077
Customer B	<u>182,450</u>	<u>175,225</u>

4. EXPENSES BY NATURE

	2025 <i>RMB'000</i>	2024 <i>RMB'000</i>
Depreciation of property, plant and equipment	212,332	212,341
Utilities and office expenditures	10,751	10,900
Employee benefit expenses	145,478	171,608
Costs of wastewater and water supply services	276,793	269,732
Cost of construction services	5,852	124,727
Other taxes and levies	29,308	28,512
Repair and maintenance costs	46,426	31,192
Depreciation of right-of-use assets	9,819	9,819
Professional expenses	11,644	12,872
Amortisation of intangible assets	57,615	66,552
Fuels expenses	14,832	14,239
Miscellaneous	4,744	5,293
	<hr/>	<hr/>
Total cost of sales, selling expenses, administrative expenses and research and development expenses	825,594	957,787
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Note: During the year, the payment for audit services and non-audit services as the remuneration of auditor were approximately RMB1,950,000 and RMB190,000 respectively (2024: approximately RMB1,950,000 and RMB30,000 respectively).

5. NET OTHER INCOME

	2025 <i>RMB'000</i>	2024 <i>RMB'000</i>
Government grants:	8,236	8,774
– relating to purchase of property, plant and equipment	6,694	7,687
– relating to tax refund	1,542	1,087
Gain on disposal of a subsidiary	–	10,312
Interest income from bank deposits	23	838
Fair value loss on investment properties	(25,217)	(21,153)
Gross rental income*	16,484	8,935
Gain on disposal of property, plant and equipment – net	241	5,795
Gain on disposal of interest in an associate	–	467
Others	7,489	9,108
	<hr/>	<hr/>
	7,256	23,076
	<hr/> <hr/>	<hr/> <hr/>

Note: Pursuant to Notice on Issuing the Catalogue of Preferential Value-added Tax (“VAT”) Policies for Products Made through and Labor Services for Integrated Utilisation of Resources issued by the State Administration of Taxation in the PRC, companies which sell self-produced products made with integrated utilised resources or provides labor services for integrated utilisation of resources can enjoy the policy of value-added tax refund upon collection from 1 July 2015. The wastewater treatment business and the reclaimed water supply business of the Group which fall into the catalogue are qualified to enjoy 70% (2024: 70%) VAT refund.

* The direct operating expenses incurred for investment properties that generated rental income were minimal in both of the years.

6. OTHER LOSSES

	2025 <i>RMB'000</i>	2024 <i>RMB'000</i>
Loss on disposal of property, plant and equipment – net	61	–
Late payment charges and overdue interest on construction payments	62,512	4,533
Others	151	972
	<u>62,724</u>	<u>5,505</u>

7. FINANCE COSTS – NET

	2025 <i>RMB'000</i>	2024 <i>RMB'000</i>
Finance income:		
– Interest income charged to related parties	45,231	47,987
– Interest income charged to a third party	–	51
	<u>45,231</u>	<u>48,038</u>
Finance costs:		
– Interest expenses on unsecured borrowings	(25,798)	(44,042)
– Interest expenses on secured borrowings	(229,787)	(228,973)
	<u>(255,585)</u>	<u>(273,015)</u>
Total interest expenses on borrowings	(255,585)	(273,015)
– Less: borrowing costs capitalised in property, plant and equipment	22,693	23,680
	<u>(232,892)</u>	<u>(249,335)</u>
– Interest expenses – net	(232,892)	(249,335)
– Exchange loss – net	(2,819)	(13,479)
– Others	(1,516)	(813)
	<u>(237,227)</u>	<u>(263,627)</u>
Finance costs – net	<u>(191,996)</u>	<u>(215,589)</u>

8. INCOME TAX EXPENSE

	2025 <i>RMB'000</i>	2024 <i>RMB'000</i>
Current tax – the PRC Corporate Income Tax		
Provision for the year	88,021	51,391
(Overprovision) underprovision in respect of prior years	(19,449)	21,872
	<u>68,572</u>	<u>73,263</u>
Deferred tax	(29,241)	(22,837)
Income tax expenses	<u>39,331</u>	<u>50,426</u>

9. DIVIDENDS

The Board of the Company does not recommend the distribution of a final dividend for the financial year 2025 (2024: Nil).

10. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year:

	2025	2024
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	196,206	263,222
Weighted average number of ordinary shares in issue (<i>thousand</i>)	<u>1,029,111</u>	<u>1,029,111</u>
Basic earnings per share (<i>RMB</i>)	<u>0.19</u>	<u>0.26</u>

The diluted earnings per share are same as the basic earnings per share as there was no dilutive potential share during the years ended 31 December 2025 and 2024.

11. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

Summarised information of the financial assets component (receivables under service concession arrangements) with respect to the Group's service concession arrangements is as follows:

	2025 <i>RMB'000</i>	2024 <i>RMB'000</i>
Receivables under service concession arrangements		
Current portion:		
Receivables under service concession arrangements	19,373	19,939
Loss allowance	<u>(500)</u>	<u>(443)</u>
	<u>18,873</u>	<u>19,496</u>
Non-current portion:		
Receivables under service concession arrangements	1,382,197	1,727,027
Loss allowance	<u>(35,115)</u>	<u>(38,340)</u>
	<u>1,347,082</u>	<u>1,688,687</u>
	<u>1,365,955</u>	<u>1,708,183</u>

As at 31 December 2025 and 2024, the carrying amounts of receivables under services concession arrangements are principally denominated in RMB.

12. AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

The amounts due from customers for construction contracts represent contract assets under BT arrangements:

	2025	2024
	RMB'000	RMB'000
Current portion:		
Amounts due from customers for construction contracts	48,355	25,139
Loss allowance	(1,248)	(558)
	<u>47,107</u>	<u>24,581</u>
Non-current portion:		
Amounts due from customers for construction contracts	863,432	563,297
Loss allowance	(21,406)	(12,505)
	<u>842,026</u>	<u>550,792</u>
	<u>889,133</u>	<u>575,373</u>

As at 31 December 2025 and 2024, the carrying amounts of amounts due from customer for construction contracts are principally denominated in RMB.

13. TRADE AND OTHER RECEIVABLES

	2025 <i>RMB'000</i>	2024 <i>RMB'000</i>
Non-current:		
Prepayments:		
– Prepayments for constructions and equipment	223,514	–
– Loss allowance	–	–
Prepayments – net	<u>223,514</u>	<u>–</u>
Current:		
Trade receivables (<i>Note (b)</i>):		
– Third parties	244,509	222,636
– Related parties	227,929	228,337
– Local government	5,102,271	4,137,952
– Loss allowance	(237,133)	(160,861)
Trade receivables – net	<u>5,337,576</u>	<u>4,428,064</u>
Other receivables:		
– Third parties	99,374	174,436
– Related parties	1,147,451	1,154,707
– Local government	25,200	28,582
– Loss allowance	(78,852)	(50,241)
Other receivables – net	<u>1,193,173</u>	<u>1,307,484</u>
Prepayments:		
– Others	138,086	74,069
Prepayments – net	<u>138,086</u>	<u>74,069</u>
Trade and other receivables – net	<u>6,668,835</u>	<u>5,809,617</u>
Total	<u><u>6,892,349</u></u>	<u><u>5,809,617</u></u>

13. TRADE AND OTHER RECEIVABLES (Continued)

Notes:

- (a) As at 31 December 2025 and 2024, the carrying amounts of trade and other receivables are principally denominated in RMB.
- (b) Ageing analysis of gross trade receivables at the end of the reporting period, based on the invoice dates, is as follows:

	2025 <i>RMB'000</i>	2024 <i>RMB'000</i>
– Within one year	1,378,009	1,370,811
– Over one year and within two years	1,296,473	1,162,766
– Over two years	<u>2,900,227</u>	<u>2,055,348</u>
	<u><u>5,574,709</u></u>	<u><u>4,588,925</u></u>

14. TRADE AND OTHER PAYABLES

	2025 <i>RMB'000</i>	2024 <i>RMB'000</i>
Trade payables to third parties (<i>Note (b)</i>)	869,682	789,715
Other payables due to:	567,169	849,277
– related parties	81,985	455,370
– local government	120,454	90,039
– third parties	364,730	303,868
Staff salaries and welfare payables	121,564	112,863
Payables for acquisition of property, plant and equipment due to:	221,586	167,706
– related parties	28,942	28,942
– third parties	192,644	138,764
Payables for acquisition of land use rights from related parties	31,000	31,000
Accrued taxes other than income tax	<u>35,712</u>	<u>33,881</u>
Total trade and other payables	<u><u>1,846,713</u></u>	<u><u>1,984,442</u></u>

14. TRADE AND OTHER PAYABLES (Continued)

Notes:

- (a) As at 31 December 2025 and 2024, the Group's trade and other payables are principally denominated in RMB.
- (b) Ageing analysis of trade payables to third parties based on the invoice dates at the end of the reporting period is as follows:

	2025	2024
	<i>RMB'000</i>	<i>RMB'000</i>
– Within one year	392,247	559,120
– Over one year and within two years	341,338	133,547
– Over two years	136,097	97,048
	869,682	789,715

15. EVENTS AFTER THE REPORTING PERIOD

There were no significant events affecting the Group after the year end up to the date of this announcement.

II. MANAGEMENT DISCUSSION AND ANALYSIS

A. OPERATING ENVIRONMENT

In 2025, the global economy continued its trend of divergent recovery, with the economic growth pattern exhibiting diversified characteristics. Meanwhile, issues such as geopolitical tensions, global trade fragmentation, weak investment and high debt levels, and the lingering lagged effects of high inflation persisted. Faced with such a complex situation, our country maintained a development pace of seeking progress while maintaining stability, and economic and social development withstood pressure and forged ahead, exhibiting an overall stable trend with a steady improvement.

The year of 2025 marked the concluding year of the “14th Five-Year Plan” and a pivotal year for China to comprehensively advance the construction of a Beautiful China and achieve the goals and tasks of ecological and environmental protection with high quality. The water treatment industry in China has entered a stage of deepened high-quality development, where refinement, low-carbon, intelligence, and resource utilization have become the core paths for high-quality development of the industry. The construction of a modern water treatment system that is safe, resilient, smart, efficient, green, and low-carbon has become a crucial foundation supporting the advancement of Chinese modernization. The 2025 Central Economic Work Conference explicitly proposed to further advance the construction to ensure the skies blue, waters clear, and lands pollution-free, strengthen the treatment of new pollutants, enhance the governance of key lakes, and implement comprehensive solid waste management actions, so as to drive the transformation of the water treatment industry from “single-point governance” to “systemic collaborative governance”, from being “primarily focused on engineering construction” to emphasizing both “operation services + technological innovation”, and from “scale expansion” to a comprehensive shift toward “quality enhancement”. Driven by the dual goals of “dual carbon” and the construction of a Beautiful China, the industry’s development has formed an overall plan and layout that promotes high-quality development through high-level protection, cultivating a green foundation for high-quality development. In addition, the 2025 special environmental protection funds continued to tilt towards key areas such as wastewater treatment, solid waste treatment, and the construction of new energy facilities. The policy support method has shifted from “blanket approach” to “targeted allocation”, with greater emphasis on performance orientation and market-oriented operations. It can be seen that the water treatment industry maintains its long-term stable development trend and is now advancing into a high-quality development stage, through the synergistic promotion of carbon reduction, pollution reduction, green expansion, and growth.

1. Overview of Wastewater Treatment Industry

Currently, China’s urban wastewater treatment has fully entered a new stage of development that places a balanced focus on systematic quality and efficiency improvement, and structural adjustment optimization. The industry’s focus has gradually shifted from the construction of incremental facilities in the past to a development stage characterized by the coordinated advancement of upgrading existing facilities, improving the quality of incremental facilities, and high-efficiency operation and maintenance of the entire process. Driven by the dual factors of high-quality development demands and policies, the national wastewater treatment volume and treatment capacity continue to rise, with the overall operational efficiency of the industry improving steadily.

In 2025, the State further increased the supply of policies in the wastewater treatment sector. By improving laws, regulations and standards, innovating market mechanisms, and increasing investment in infrastructure, the State has accelerated the industry's transition towards a pattern of “integrated plant and network, treating water and soil concurrently, and recycling”, injecting strong momentum into quality and efficiency improvement, and high-quality development. In April, the “Opinions of the General Office of the CPC Central Committee and the General Office of the State Council on Improving the Price Governance Mechanism” (《中共中央辦公廳、國務院辦公廳關於完善價格治理機制的意見》) were issued, which explicitly proposed to improve the price mechanism of public utilities for sustainable development, as well as to construct incentive mechanisms for cost reduction and efficiency enhancement. In May, seven departments including the Ministry of Ecology and Environment issued the “Action Plan for the Protection and Construction of Beautiful Rivers and Lakes (2025-2027)” (《美麗河湖保護與建設行動方案(2025-2027年)》), requiring the strengthening of the rectification of river outfalls, the prevention and control of water pollution in industrial parks, and the collection and treatment of urban and rural domestic sewage, the acceleration of addressing shortcomings in urban domestic sewage collection and treatment facilities, the enhancement of the management of the collection and use of sewage treatment fees, and the vigorous promotion of the utilization of sewage as a resource, so as to significantly improve the comprehensive efficiency of urban domestic sewage collection and treatment by 2027. During the same period, the “Opinions on Continuously Promoting Urban Renewal Actions” (《關於持續推進城市更新行動的意見》) issued by the General Office of the CPC Central Committee and the General Office of the State Council proposed tasks such as accelerating the construction and renovation of wastewater pipe networks and facilities for the collection, treatment, recycling and reuse of urban domestic sewage and sludge disposal facilities, and accelerating the establishment of integrated construction and operation and maintenance mechanisms for sewage treatment plants and networks, and providing financing support for sewage construction projects by increasing the central budget, issuing local government special bonds, and promoting the issuance of real estate investment trust funds (REITs) in the infrastructure sector.

With the continuous improvement of the standard system for the wastewater treatment industry and the gradual refinement of differentiated and precise discharge control requirements, the wastewater treatment industry will, under the combined effects of policy-driven, technological innovation, and market demand, move towards a new stage of high-quality, low-carbon, and resource-oriented development in the future, providing solid support for the development of the industry.

2. Overview of Reclaimed Water Industry

Against the backdrop of the continuous rise in water resource demand and the increasingly prominent water scarcity issues in our country, the strategic value of reclaimed water as the “second source of water” for cities has become increasingly significant, and the industry has entered a period of accelerated development. Treated reclaimed water has been widely applied in various fields such as agricultural irrigation, urban landscaping irrigation, and industrial cooling water, effectively alleviating the shortage of natural water resources and becoming a key for resolving the contradiction between the supply of and demand for water resources.

The continuous strengthening of policies has built a solid foundation for the development of the industry, further clarifying the industry’s development path and market space. In March 2025, the Ministry of Water Resources issued the “Key Points for National Water Conservation Work of 2025” (《2025年全國節約用水工作要點》), proposing the establishment of a special task to “consolidate the strategic foundation of unconventional water resources as the second source of water”, the commencement of a survey on the number of unconventional water sources, and the planning of unconventional water resources substitution actions in key regions. In June, the Ministry of Water Resources launched the 2025-2026 national unconventional water development and utilization projects, with plans to implement 20 construction projects in 2025, which are expected to increase 120 million cubic meters of annual unconventional water utilization capacity; upon the implementation of the projects over the two-year period, the additional annual utilization capacity will exceed 300 million cubic meters. In November, the Ministry of Industry and Information Technology, together with the Ministry of Water Resources, issued the “Implementation Plan for the High-Quality Development of Water-Saving Equipment (2025-2030)” (《節水裝備高質量發展實施方案(2025-2030年)》), proposing to take the construction of reclaimed water utilization facilities, equipment manufacturing, and operation services as key areas and breakthrough directions for the development of the water-saving industry, so as to promote the optimized allocation and efficient utilization of unconventional water resources through industrial and technological advance. Driven by the precise policy guidance, continuous technological breakthroughs, and the stimulation from market demand, the market space of the reclaimed water industry continues to expand, effectively alleviating the pressure of water resource scarcity and contributing to the achievement of the “dual carbon” goals.

3. Overview of Municipal Water Supply Industry

With the continuous advancement of China's urbanization process, water supply volumes in cities and county seats have remained stable, indicating that the water supply industry has entered a mature development stage, where green and digital technologies will become key levers for industry upgrading. In recent years, against the dual backdrop of the deepening "water conservation priority" strategy and increasingly stringent water resource constraints, the water supply industry has entered a critical phase of policy implementation and efficiency enhancement. The "Standard for Urban Water Supply and Water Use Performance Assessment" (《城市供水和用水績效評價標準》) implemented in January 2025, established for the first time a quantitative evaluation system covering the entire process of water supply, providing a scientific basis for the standardized development of the industry. The "Urban Water Supply Price Management Measures" (《城市供水價格管理辦法》) issued in March, innovatively introduced a dynamic price adjustment mechanism, driving the coverage rate of tiered water pricing to over 95% and further strengthening the role of water resources as an economic lever. In May, the Ministry of Housing and Urban-Rural Development and the National Development and Reform Commission issued the "List of Replicable Policy Mechanisms for Leakage Control in Urban Public Water Supply Networks (Second Batch)" (《城市公共供水管網漏損治理可複製政策機制清單(第二批)》), which clearly outlines measures such as promoting the renovation and transformation of aged water supply networks, establishing and improving water zoning metering systems, enhancing metered management of water supply network zoning, implementing intelligent construction of water supply networks, and establishing and improving water price formation and adjustment mechanisms. Meanwhile, the expansion of water resource tax pilot reforms and accelerated development of water rights trading markets are creating stronger incentives for improving water resource utilization efficiency. Looking ahead, the water supply industry will further transition toward intelligent, low-carbon, intensive and sustainable development, providing a solid foundation for high-quality economic and social development.

B. DEVELOPMENT STRATEGY AND FUTURE PROSPECTS

Looking ahead to 2026, the pace of policy adjustments in major economies is expected to become more cautious. Although inflation has receded from its peak, it is gradually stabilizing. Driven by supporting from consumption and investment in certain emerging industries, and coupled with the robust growth momentum of emerging market economies, the global economy is expected to maintain a trend of moderate recovery and demonstrate a degree of resilience. However, the complex landscape of global geopolitical competition and the deep-seated needs for domestic economic structural transformation remain unchanged. Issues such as capital flow volatility triggered by policy divergence, fiscal sustainability pressures, trade barriers, and structural constraints remain prominent, and the characteristics of the global economic recovery process being uneven and unstable continue to manifest.

The year 2026 marks the commencement year of the “15th Five-Year Plan”. The Company will continue to uphold the general keynote of “seeking progress while maintaining stability, promoting stability with progress”, focusing on its core business, maintaining steady operations and continuing to promote high-quality transformation and development. Firstly, we will strengthen and optimize the main business, steadily advance the expansion and extension of the industrial chain, enhance core functions, and improve core competitiveness. Secondly, we will strive for new breakthroughs in improving quality and efficiency, and implement a standardized operation management and cost control system covering the entire business chain, full cycle, and all factors. Thirdly, we will take existing operations as the main line to steadily enhance the basic business operations. Fourthly, we will focus on cash flow, strictly control non-productive expenditures, intensify efforts to collect accounts receivable, and continuously improve asset quality through internal resource integration and the disposal of inefficient assets. Fifthly, we will accelerate the progress of projects under construction, and activate projects that should and can be revitalized to strive to put them into production and operation as soon as possible, thereby achieving greater output. The Company will constantly reinforce its core functions and improve its core competitiveness to promote the high-quality development of the Company.

C. BUSINESS REVIEW

The Group principally adopts the TOO, TOT and BOT project models, with a focus on the TOO and BOT models. For the year ended 31 December 2025, our TOO and BOO projects contributed to 63.3% of our total revenue. Our TOT and BOT projects contributed to 11.4% of our total revenue, and we also adopt the BT project models for some of our projects.

For the TOO and TOT models, we acquire concessions to operate existing facilities at agreed prices from the relevant local governments. For the BOT model, we finance, construct and operate relevant facilities. After the expiration of the relevant concessions, we either obtain new concessions from or transfer the relevant facilities back to the relevant local governments, depending on the project type. As of 31 December 2025, we had a total of 38 plants (34 wastewater treatment plants and 4 running water plants) under concession agreements. Among the 38 plants in operation, 14 were TOO projects, 2 were TOT projects, 20 were BOT projects and 2 were BOO projects.

During the Reporting Period, the utilisation rate of our facilities was maintained at a high level. For the year ended 31 December 2025, the total volume of wastewater treated was approximately 652.7 million m³ with an average facility utilisation rate of approximately 95.9%.

Wastewater Treatment Projects

As of 31 December 2025, we had a total of 34 wastewater treatment plants in operation (including 14 in Kunming and 20 in other areas of the PRC), with a total wastewater treatment capacity of 1.9 million m³ per day. With our technologically advanced facilities, independently developed patents and strong management skills, we have been able to maintain low costs while providing high quality wastewater treatment services. The Company's wastewater treatment plants in operation adopt a variety of processes such as oxidation ditch, A²/O, ICEAS, MBR, CAST and SBR. The Company's core competitiveness in the wastewater treatment industry is its extensive and comprehensive operational management experience and technical management team.

During the Reporting Period, the Company seized the opportunities brought by the Chinese government's policy regarding the large-scale renovation and transformation of municipal infrastructure and equipment, and actively applied for supporting funds to carry out renovation and transformation of old equipment in certain plants, so as to further enhance the treatment performance and efficiency of the water quality purification plants in operation of the Company.

In addition, we were entrusted to provide operation management services to a total of 24 township wastewater treatment stations. At the same time, we have been entrusted to operate and manage rural domestic sewage collection and treatment facilities in 751 villages, covering 11 counties and districts.

Reclaimed Water Business

We carried out the reclaimed water business by relying on our own sewage treatment plants that receive entrusted operation services. As of 31 December 2025, we had 12 reclaimed water stations and 2 second-stage booster pump stations. Meanwhile, we provided entrusted operation services for 5 reclaimed water stations/booster pump stations, with a total designed daily production capacity of reclaimed water facilities of 334,000 m³. Customers of our reclaimed water include commercial and industrial establishments, enterprises and public institutions and other entities in Kunming. During the Reporting Period, reclaimed water supply was 94.1 million m³.

Running Water Business

For our running water business, as of 31 December 2025, we had 4 running water plants in the PRC. During the Reporting Period, the supply of running water amounted to 7.545 million m³, and the quality of water supplied met the requirements of the “Standards for Drinking Water Quality GB5749-2022”* (《生活飲用水衛生標準GB5749-2022》).

D. MAJOR RISKS

The operational risks facing the Group are mainly the capital-intensive characteristics of the industry, requirements of water quality standards and other force majeure events.

Capital-intensive characteristics of the industry

We are engaged in wastewater treatment, reclaimed water supply and running water supply projects, which typically require significant initial cash outlays and have long payback periods. On average, the investment payback periods for our projects range from five to ten years. If we fail to obtain financing or refinancing for such projects in the amounts required, we may need to finance these projects from our internal resources, which may strain our resources for other corporate purposes. Additionally, we may fail to properly perform our obligations in respect of these projects as a result of a funding shortage, which may lead to a reduction in our returns and may even lead to the loss of our initial capital investments.

We are required to make substantial capital investments during the initial phases of our projects. These investments are primarily dependent on the funds we raised from our global offering, bank loans, corporate bonds and other means of financing. For the year ended 31 December 2025, our total borrowings amounted to RMB5,192.1 million, representing an increase of 13.1% from RMB4,589.2 million in 2024. As of 31 December 2025, our net gearing ratio, calculated as net liabilities divided by total capital, was 48.7%.

We expect to continue to utilise bank loans, corporate bonds and a diverse combination of financing facilities to finance a portion of our investments in our projects. The interest rate of bank loans is mainly affected by the quoted market rate of RMB loans issued by the National Interbank Funding Center each month. Increased interest rates may increase our total interest expenses on RMB borrowings. The financing efficiency and financing cost of corporate bonds and other financing instruments are affected by factors such as the economic environment, financing market conditions and the Company's own operating conditions. Changes in relevant factors may affect the Company's financing efficiency and financing costs.

Requirements of water quality standards

Our wastewater treatment, reclaimed water supply and running water supply facilities are built to treat wastewater and raw water to specified quality standards. The quality of our treated wastewater and supplied reclaimed and running water depends on the level of pollution of the inflow of wastewater into our facilities/the quality of the raw water and normal operation of our facilities. We are subject to risks of unknown or undiscovered inflow of wastewater/raw water into our equipment that exceeds our treatment capacity or defects or compatibility problems with our equipment. We cannot assure that we will always be able to timely discover and repair malfunctioning equipment or any other problems with our treatment process or facilities. In such circumstances, our facilities may not be able to treat wastewater or raw water in compliance with the relevant regulatory and contractual standards, which could result in us being subject to claims from our customers or governmental penalties, and could lead to the suspension of our operations pending rectification as well as reputational damage. In addition, the incoming wastewater or raw water to be treated by our facilities may contain pollutants exceeding the types and quantity of pollutants that we contemplated during the design and construction of the facilities, which will adversely affect our operating costs, deterioration of our facilities and effluent quality.

Force majeure events

Any future occurrence of force majeure events, natural disasters or outbreaks of pandemics may restrict business in the areas affected and adversely affect our business and results of operations. These risks include damage to facilities, equipment and structures caused by natural disasters such as heavy rainfall, extremely high or low temperatures and lightning strikes, resulting in interruption of production operation and damage to facilities and equipment. The Company has formulated contingency plans to respond to unexpected force majeure events and conducts emergency drills in daily operation to enhance the ability of the Company and its employees to respond to such events, and procures relevant materials and conducts safety inspections before the onset of the rainy season in places where it operates to reduce the impact of such force majeure events on the Company.

E. FINANCIAL REVIEW

1. Consolidated Results of Operations

Our revenue decreased by RMB114.6 million, or 7.2%, to RMB1,479.6 million for the year ended 31 December 2025, from RMB1,594.2 million for the year ended 31 December 2024. Our gross profits decreased by RMB6.8 million, or 1.0%, to RMB706.9 million for the year ended 31 December 2025, from RMB713.7 million for the year ended 31 December 2024. During the Reporting Period, revenue from wastewater treatment services, reclaimed water and running water supply, and other segments accounted for 71.5%, 12.1% and 16.4% of the total revenue, respectively.

The following discussion addresses the principal trends that have affected our results of operations during the Reporting Period. The following table sets out our consolidated results of operations for the periods indicated:

	For the year ended 31 December	
	2025 RMB'000	2024 RMB'000
Revenue	1,479,552	1,594,164
Cost of sales	<u>(772,659)</u>	<u>(880,513)</u>
Gross profit	706,893	713,651
Selling expenses	(1,152)	(1,139)
Administrative expenses	(51,429)	(76,135)
Research and development expenses	(354)	–
Net impairment losses on financial assets	(173,961)	(129,040)
Other income, net	7,256	23,076
Other losses	<u>(62,724)</u>	<u>(5,505)</u>
Operating profit	424,529	524,908
Finance income	45,231	48,038
Finance costs	<u>(237,227)</u>	<u>(263,627)</u>
Finance costs – net	<u>(191,996)</u>	<u>(215,589)</u>
Share of results of associates	<u>3,669</u>	<u>5,035</u>
Profit before taxation	236,202	314,354
Income tax	<u>(39,331)</u>	<u>(50,426)</u>
Profit for the year	196,871	263,928
Other comprehensive (loss)/income	<u>(432)</u>	<u>1,116</u>
Total comprehensive income for the year	<u>196,439</u>	<u>265,044</u>

a. Revenue

Our revenue decreased by RMB114.6 million, or 7.2%, to RMB1,479.6 million for the year ended 31 December 2025 from RMB1,594.2 million for the year ended 31 December 2024, primarily due to:

- Our revenue from wastewater treatment business decreased by RMB93.7 million or 8.1% from RMB1,151.8 million for the year ended 31 December 2024 to RMB1,058.1 million for the year ended 31 December 2025. In particular, the construction services income decreased by RMB80.7 million, which was mainly due to the decrease in investment in construction during the year; revenue from operating income decreased by approximately RMB10.3 million, mainly due to the impact of the disposal of three subsidiaries, including Zhaotong Guorun Water Treatment Co., Ltd.* (昭通國潤水務有限公司), which was completed in the first quarter of 2024; and financial income decreased by RMB2.8 million.
- Our revenue from water supply segment increased by RMB4.7 million or 2.7% from RMB174.4 million for the year ended 31 December 2024 to RMB179.1 million for the year ended 31 December 2025. In particular, water supply operating income decreased by approximately RMB10.5 million; the construction services income decreased by approximately RMB32.2 million, which was mainly due to the decrease in investment in reclaimed water supply and fresh water supply projects in 2025; finance income increased by approximately RMB47.4 million, primarily due to the increase in repurchase income from reclaimed water BT projects during the year.
- Our revenue from other segments decreased by RMB25.6 million or 9.6% from RMB268.0 million for the year ended 31 December 2024 to RMB242.4 million for the year ended 31 December 2025, primarily due to the decrease in other types of revenue.

b. Cost of sales

Our cost of sales decreased by RMB107.8 million, or 12.2%, to RMB772.7 million for the year ended 31 December 2025, from RMB880.5 million for the year ended 31 December 2024. Details are as follows:

- Our cost of sales for wastewater treatment segment decreased by RMB57.2 million, or 8.8%, to RMB592.9 million for the year ended 31 December 2025, from RMB650.1 million for the year ended 31 December 2024.
- Our cost of sales for water supply segment decreased by RMB26.1 million, or 22.8%, to RMB88.2 million for the year ended 31 December 2025, from RMB114.3 million for the year ended 31 December 2024.
- Our cost of sales for other segments decreased by RMB24.5 million, or 21.1%, to RMB91.6 million for the year ended 31 December 2025, from RMB116.1 million for the year ended 31 December 2024.

c. Gross margin

Our gross profit decreased by RMB6.8 million, or 1.0%, to RMB706.9 million for the year ended 31 December 2025, from RMB713.7 million for the year ended 31 December 2024, which was mainly due to the decrease in gross profit from wastewater treatment segment of RMB36.5 million, increase in gross profit from water supply segment of RMB30.9 million and decrease in gross profit from other segments of RMB1.1 million.

Our gross margin increased by 3.0 percentage points from 44.8% for the year ended 31 December 2024 to 47.8% for the year ended 31 December 2025.

- Our gross profit from wastewater treatment segment decreased by RMB36.5 million, or 7.3%, to RMB465.2 million for the year ended 31 December 2025, from RMB501.7 million for the year ended 31 December 2024. Our segment gross margin increased by 0.4 percentage points from 43.6% for the year ended 31 December 2024 to 44.0% for the year ended 31 December 2025.

- Our gross profit from water supply segment increased by RMB30.9 million, or 51.5%, to RMB90.9 million for the year ended 31 December 2025, from RMB60.0 million for the year ended 31 December 2024. Our segment gross margin increased by 16.3 percentage points from 34.4% for the year ended 31 December 2024 to 50.7% for the year ended 31 December 2025.
- Our gross profit from other segments decreased by RMB1.1 million, or 0.7%, to RMB150.8 million for the year ended 31 December 2025, from RMB151.9 million for the year ended 31 December 2024. Our segment gross margin increased by 5.5 percentage points from 56.7% for the year ended 31 December 2024 to 62.2% for the year ended 31 December 2025.

d. *Selling expenses*

Our selling expenses increased by RMB0.1 million or 9.1% from RMB1.1 million for the year ended 31 December 2024 to RMB1.2 million for the year ended 31 December 2025.

e. *Administrative expenses*

Administrative expenses decreased by RMB24.7 million, or 32.5%, to RMB51.4 million for the year ended 31 December 2025, from RMB76.1 million for the year ended 31 December 2024, which was mainly due to the changes in the remuneration of employees, professional expenses during the Reporting Period.

f. *Net impairment losses on financial assets*

Impairment losses on financial assets increased by RMB45.0 million or 34.9% from RMB129.0 million for the year ended 31 December 2024 to RMB174.0 million for the year ended 31 December 2025.

g. *Net other income*

Our other income decreased from RMB23.1 million for the year ended 31 December 2024 to RMB7.3 million for the year ended 31 December 2025, representing a decrease of RMB15.8 million or 68.4%, which was mainly due to a decrease in revenue from the disposal of subsidiaries.

h. Other losses

Our other losses increased to RMB62.7 million for the year ended 31 December 2025, from RMB5.5 million for the year ended 31 December 2024.

i. Operating profit

As a result of the foregoing factors, our operating profit decreased by RMB100.4 million, or 19.1%, to RMB424.5 million for the year ended 31 December 2025, from RMB524.9 million for the year ended 31 December 2024. Our operating margins for the years ended 31 December 2025 and 31 December 2024 were 28.7% and 32.9%, respectively.

j. Finance income

Our finance income decreased by RMB2.8 million, or 5.8%, to RMB45.2 million for the year ended 31 December 2025, from RMB48.0 million for the year ended 31 December 2024.

k. Finance costs

Our finance costs decreased by RMB26.4 million, or 10.0%, to RMB237.2 million for the year ended 31 December 2025, from RMB263.6 million for the year ended 31 December 2024.

l. Profit before income tax

As a result of the foregoing factors, our profit before income tax decreased by RMB78.2 million, or 24.9%, to RMB236.2 million for the year ended 31 December 2025 from RMB314.4 million for the year ended 31 December 2024.

m. Income tax expense

We incurred income tax expenses of RMB50.4 million for the year ended 31 December 2024 and RMB39.3 million for the year ended 31 December 2025 at effective tax rates of 16.0% and 16.7%, respectively. Certain subsidiaries were eligible for the preferential corporate income tax rate for small and micro-profit enterprises and certain subsidiaries were eligible for the preferential 15% corporate income tax rate under the “Western Development Policy” during the year. In addition, certain newly upgraded wastewater treatment facilities owned by certain PRC subsidiaries meet the criteria provided in the catalogue for public basic infrastructure projects qualified for corporate income tax preferential treatments and are entitled to three years’ exemption from corporate income tax followed by three years of a 50% tax reduction on relevant taxable income derived from such new projects, and certain PRC subsidiaries used resources specified in the catalogue of resources comprehensive utilisation projects eligible for preferential corporate income tax rate and 10% of the income of such subsidiaries was not subject to corporate income tax.

n. Total comprehensive income

As a result of the foregoing factors, our total comprehensive income decreased by RMB68.6 million, or 25.9%, to RMB196.4 million for the year ended 31 December 2025 from RMB265.0 million for the year ended 31 December 2024.

2. Liquidity and Capital Resources

Our primary uses of cash are for investing in, constructing, operating and maintaining our wastewater treatment and water supply facilities. To date, we have funded our investments and operations principally with bank loans, cash generated from our operations, equity contributions and issuance of debt instruments.

The following table sets out our cash flows for the years indicated:

	For the year ended 31 December	
	2025	2024
	RMB'000	RMB'000
Net cash (used in) from operating activities	(524,162)	293,820
Net cash (used in) from investing activities	(66,834)	75,666
Net cash from (used in) financing activities	<u>613,651</u>	<u>(532,835)</u>
Net increase (decrease) in cash and cash equivalents	22,655	(163,349)
Effect of change in foreign exchange rates	(3)	238
Cash and cash equivalents at the beginning of the Reporting Period	<u>10,977</u>	<u>174,088</u>
Cash and cash equivalents at the end of the Reporting Period, presented by cash and bank balances	<u><u>33,629</u></u>	<u><u>10,977</u></u>

a. *Net cash (used in) from operating activities*

Our net cash used in operating activities primarily consists of cash received from our clients for services provided by us, as well as cash used in our operations for the purchase of raw materials and other inventories, payments to suppliers and subcontractors, payments of expenses such as salaries and benefits, and payments of interest and income tax.

For the year ended 31 December 2025, our net cash used in operating activities was RMB524.2 million, primarily comprising cash used in operations amounting to RMB270.7 million, income tax paid amounting to RMB21.8 million and interest paid amounting to RMB231.6 million. The net cash from operating activities in 2025 decreased by RMB818.0 million compared with that of 2024, primarily due to a higher net cash outflow for the payment between enterprises in 2025 as compared to 2024.

b. *Net cash (used in) from investing activities*

Our net cash used in investing activities primarily consisted of repayments received from related parties, interest received, and payments for purchase of property, plant and equipment and other investments.

As of 31 December 2025, the net cash used in investing activities amounted to RMB66.8 million, primarily comprising the purchase of property, plant and equipment and the settlement of construction costs amounting to RMB81.2 million, net collection of loans granted to related parties amounting to RMB0.2 million, interests received amounting to RMB20.4 million, proceeds from disposal of property, plant and equipment of RMB0.1 million, and cash paid for the final installment of the acquisition of equity interests in subsidiaries amounting to RMB6.3 million. The net cash from investing activities in 2025 decreased by RMB142.5 million compared with that of 2024, primarily due to the fact that there were proceeds from the disposal of subsidiaries and proceeds from the disposal of receivables under service concession arrangements in the previous year, which did not occur in the current year.

c. *Net cash from (used in) financing activities*

Our net cash from financing activities primarily represents repaying and obtaining borrowings. Our net cash generated from financing activities increased from net outflow of RMB532.8 million for the year ended 31 December 2024 to net inflow of RMB613.7 million for the year ended 31 December 2025.

3. Working Capital

The table below presents our current assets and current liabilities as of the dates indicated:

	As at 31 December	
	2025	2024
	<i>RMB'000</i>	<i>RMB'000</i>
Current assets		
Receivables under service concession arrangements	18,873	19,496
Amounts due from customers for construction contracts	47,107	24,581
Inventories	6,642	6,212
Financial assets at amortised cost	59,400	119,600
Trade and other receivables	6,668,835	5,809,617
Restricted funds	3,501	25,965
Cash and bank balances	33,629	10,977
Total current assets	6,837,987	6,016,448
Current liabilities		
Trade and other payables	1,846,713	1,984,442
Contract liabilities	13,772	30,127
Tax payables	257,932	190,597
Borrowings	3,030,567	2,490,841
Total current liabilities	5,148,984	4,696,007
Net current assets	1,689,003	1,320,441

We recorded net current assets of RMB1,689.0 million as at 31 December 2025 and net current assets of RMB1,320.4 million as at 31 December 2024.

a. *Receivables under service concession arrangements*

Our receivables under service concession arrangements refer to the outstanding receivables arising from our construction services (for BOT projects) or acquisition considerations (for TOT projects) throughout a concession period. Under our BOT and TOT agreements, the amounts of receivables under service concession arrangements will be settled by tariff payments to be received during the operation phases of our BOT and TOT projects (adjusted by operation services and finance income). The portion of the receivables under service concession arrangements due within twelve months from a particular balance sheet date is classified as current assets as at that balance sheet date and the remainder is classified as non-current assets.

Our receivables under service concession arrangements decreased by RMB0.6 million or 3.1% from RMB19.5 million on 31 December 2024 to RMB18.9 million on 31 December 2025.

b. *Inventories*

Our total inventory increased by RMB0.4 million, or 6.5%, to RMB6.6 million as of 31 December 2025 from RMB6.2 million as of 31 December 2024.

Our inventory turnover days increased from 2.9 days on 31 December 2024 to 3.0 days on 31 December 2025 (calculated as the average inventories for the relevant year divided by the cost of sales recognised for the relevant year, multiplied by 365 days. The arithmetic mean of the opening and closing balances of inventories is used for the years ended 31 December 2024 and 2025).

c. *Amounts due from customers for construction contracts*

The portion of amounts due from customers for construction contracts due within twelve months from a particular balance sheet date is classified as current assets as at that balance sheet date and the remainder is classified as non-current assets.

Our amounts due from customers for construction contracts increased by RMB22.5 million, or 91.5% to RMB47.1 million as of 31 December 2025 from RMB24.6 million as of 31 December 2024.

d. Trade and other receivables

Our trade and other receivables classified as current portion primarily consist of (i) trade receivables from local governments, related parties and third parties; (ii) other receivables from related parties, third parties and local governments; and (iii) prepayments. Our trade receivables are amounts due from customers for operation services provided to the customers in TOO, TOT and BOT projects. Our other receivables primarily consist of loans granted to and interest receivable from related parties, and VAT refund yet to be received. Our prepayments primarily consist of prepayments for electricity and energy or goods.

The following table shows the breakdown of our consolidated trade and other receivables classified as current portion as of the dates indicated:

	2025	2024
	<i>RMB'000</i>	<i>RMB'000</i>
Current:		
Trade receivables:		
– Third parties	244,509	222,636
– Related parties	227,929	228,337
– Local government	5,102,271	4,137,952
– Loss allowance	<u>(237,133)</u>	<u>(160,861)</u>
Trade receivables – net	<u>5,337,576</u>	<u>4,428,064</u>
Other receivables:		
– Third parties	99,374	174,436
– Related parties	1,147,451	1,154,707
– Local government	25,200	28,582
– Loss allowance	<u>(78,852)</u>	<u>(50,241)</u>
Other receivables – net	<u>1,193,173</u>	<u>1,307,484</u>
Prepayments:		
– Others	<u>138,086</u>	<u>74,069</u>
Prepayments – net	<u>138,086</u>	<u>74,069</u>
Trade and other receivables – net	<u><u>6,668,835</u></u>	<u><u>5,809,617</u></u>

Our net trade and other receivables classified as current portion increased by RMB859.2 million, or 14.8%, to RMB6,668.8 million as of 31 December 2025 from RMB5,809.6 million as of 31 December 2024, reflecting in (i) an increase in trade receivables due from local government by RMB964.3 million, or 23.3%, to RMB5,102.3 million as of 31 December 2025 from RMB4,138.0 million as of 31 December 2024; (ii) a decrease in amounts due from third parties by RMB75.0 million, or 43.0%, to RMB99.4 million as of 31 December 2025 from RMB174.4 million as of 31 December 2024; (iii) a decrease in amounts due from related parties by RMB7.2 million, or 0.6%, to RMB1,147.5 million as of 31 December 2025 from RMB1,154.7 million as of 31 December 2024; and (iv) an increase in total prepayment of RMB64.0 million in 2025.

The ageing analysis of trade receivables of our Group is shown as follows:

	As at 31 December	
	2025	2024
	<i>RMB'000</i>	<i>RMB'000</i>
– Within one year	1,378,009	1,370,811
– Over one year and within two years	1,296,473	1,162,766
– Over two years	<u>2,900,227</u>	<u>2,055,348</u>
	<u><u>5,574,709</u></u>	<u><u>4,588,925</u></u>

(a) Ageing analysis of gross trade receivables at the respective balance sheet dates, based on sales invoice, is as follows:

	As at 31 December	
	2025	2024
	<i>RMB'000</i>	<i>RMB'000</i>
– Within one year	1,378,009	1,370,811
– Over one year and within two years	1,296,473	1,162,766
– Over two years	<u>2,900,227</u>	<u>2,055,348</u>
	<u><u>5,574,709</u></u>	<u><u>4,588,925</u></u>

The Group does not hold any collateral as security.

The following table sets out our receivable turnover days for the periods indicated:

	As at 31 December	
	2025	2024
	Days	Days
Trade receivable turnover days ⁽¹⁾	1,204.6	913.1
Trade and other receivable turnover days ⁽²⁾	1,539.2	1,173.1

Notes:

- (1) Calculated as the average net trade receivables for the relevant period divided by the revenue for the relevant period and multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade receivables is used for the years ended 31 December 2024 and 2025.
- (2) Calculated as the average net trade and other receivables classified as current portion for the relevant period divided by the revenue for the relevant period and multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade and other receivables is used for the years ended 31 December 2024 and 2025.

Our trade receivables turnover days increased by 291.5 days in 2025 as compared with 2024, mainly due to the delays in government payment during the Reporting Period.

e. Trade and other payables/Contract liabilities

Trade and other payables

Our trade and other payables primarily consist of trade payables, other payables, staff salaries and welfare payables, payables on acquisition of property, plant and equipment, payables on acquisition of land use rights from related parties, and accrued taxes other than income tax.

The following table shows the breakdown of our trade and other payables as of the dates indicated:

	As at 31 December	
	2025	2024
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	869,682	789,715
Other payables	567,169	849,277
Staff salaries and welfare payables	121,564	112,863
Payables on acquisition of property, plant and equipment	221,586	167,706
Payables on acquisition of land use rights from related parties	31,000	31,000
Accrued taxes other than income tax	35,712	33,881
	<u>1,846,713</u>	<u>1,984,442</u>

Contract liabilities

	As at 31 December	
	2025	2024
	<i>RMB'000</i>	<i>RMB'000</i>
Contract liabilities		
– Related parties	2,921	2,921
– Third parties	10,851	27,206
	<u>13,772</u>	<u>30,127</u>

Our trade and other payables decreased by RMB137.7 million, or 6.9%, to RMB1,846.7 million as of 31 December 2025 from RMB1,984.4 million as of 31 December 2024, which was mainly due to the decrease in other payables to related parties in 2025.

On each balance sheet date, the ageing analysis of gross trade payables based on the invoice dates is as follows:

	As at 31 December	
	2025	2024
	<i>RMB'000</i>	<i>RMB'000</i>
– Within one year	392,247	559,120
– Over one year and within two years	341,338	133,547
– Over two years	136,097	97,048
	<u>869,682</u>	<u>789,715</u>

As at 31 December 2024 and 2025, except for other payables arising from financing nature, all trade and other payables of the Group were not required to pay interests, and their fair values approximated their carrying amounts due to their short maturities.

The following table sets out our payable turnover days for the periods indicated:

	As at 31 December	
	2025	2024
	<i>Days</i>	<i>Days</i>
Trade and other payables turnover days ⁽¹⁾	904.9	697.4
Trade payables turnover days ⁽²⁾	392.0	257.9

Notes:

- (1) Calculated as the average trade and other payables for the relevant period divided by cost of sales for the relevant period and multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade and other payables is used for the years ended 31 December 2024 and 2025.
- (2) Calculated as the balance of trade payables at the end of the relevant period divided by total purchase of materials for such period and multiplied by 365 days for the years ended 31 December 2024 and 2025.

Our trade payables turnover days increased by 134.1 days in 2025 as compared with 2024, mainly due to the increase in trade payables during the Reporting Period and the decrease in total purchase as compared with the last year.

The Directors confirm that up to 31 December 2025, there was no material default in payment of trade payables.

4. Indebtedness

a. Borrowings

All of our borrowings are denominated in RMB (2024: RMB, HKD or USD). Some are pledged by sewage treatment revenue, waste sanitary landfill construction project revenue, and pledge of equity of the subsidiary, some are secured by our property, plant and equipment and some are secured by corporate guarantee issued by the Company, etc. The following table shows our borrowings as of the dates indicated:

	As at 31 December	
	2025	2024
	RMB'000	RMB'000
Non-current portion		
Unsecured long-term borrowings	299,880	337,800
Secured long-term borrowings	1,861,625	1,760,538
Total non-current borrowings	<u>2,161,505</u>	<u>2,098,338</u>
Current portion		
Unsecured short-term borrowings	331,769	705,285
Secured short-term borrowings	2,698,798	1,785,556
Total current borrowings	<u>3,030,567</u>	<u>2,490,841</u>
Total borrowings	<u>5,192,072</u>	<u>4,589,179</u>

The weighted average effective interest rates at each balance sheet date are as follows:

	As at 31 December	
	2025	2024
Weighted average effective interest rates	<u>4.24%</u>	<u>5.77%</u>

As of 31 December 2025 and 2024, our total borrowings amounted to RMB5,192.1 million and RMB4,589.2 million respectively, mainly due to the increase in total borrowings for the year of RMB602.9 million as a result of the increase in the Company's capital requirements during the Reporting Period. Among our indebtedness, borrowings amounting to RMB2,445.8 million and RMB1,679.7 million as of 31 December 2025 and 2024 respectively, were secured by our sewage treatment revenue.

As of 31 December 2025, we did not have any breaches of covenants in the loan agreements that could materially affect our business operations and no bank has withdrawn any banking facilities previously extended to us or demanded early repayment of borrowings. As we have the ability to obtain borrowings from other banks, we believe that we are not subject to any potential risk of withdrawal of banking facilities or early repayment of outstanding loans. As of 31 December 2025, we had not received any requests for early repayment of the principal or interests under any of our loan agreements.

The table below sets out the maturity profiles of our borrowings as of the dates indicated:

	As at 31 December	
	2025	2024
	<i>RMB'000</i>	<i>RMB'000</i>
On demand or within 1 year	3,030,567	2,490,841
Between 1 and 2 years	1,268,716	844,235
Between 2 and 5 years	729,610	1,085,745
Later than 5 years	163,179	168,358
	<u>5,192,072</u>	<u>4,589,179</u>

As of 31 December 2024 and 2025, our net gearing ratios were 46.5% and 48.7%, respectively. Our net gearing ratios as at 31 December 2025 increased by 2.2 percentage points as compared with 31 December 2024, primarily due to an increase in net debt resulting from a rise in total borrowings.

Except as disclosed above, as of 31 December 2025, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

b. Commitments

(a) Capital commitments

Capital expenditures contracted for at each balance sheet date, but not yet incurred are as follows:

	As at 31 December	
	2025	2024
	RMB'000	RMB'000
Property, plant and equipment	<u>833,903</u>	<u>84,030</u>

(b) Concession projects and construction projects contracted at each balance sheet date, but not yet incurred are as follows:

	As at 31 December	
	2025	2024
	RMB'000	RMB'000
Concession projects and construction projects	<u>706,710</u>	<u>730,962</u>

c. Capital expenditure

Our capital expenditure mainly comprises purchases of land use rights, property, plant and equipment and intangible assets. Our capital expenditure was RMB161.2 million and RMB283.0 million for the years ended 31 December 2024 and 2025, respectively. We expect to fund our contractual commitments and capital expenditures principally through net cash generated from our operating activities and proceeds from borrowings.

Our capital expenditure for each of our segments as at the dates indicated below is as follows:

	As at 31 December	
	2025	2024
	<i>RMB'000</i>	<i>RMB'000</i>
Wastewater treatment	213,976	28,007
Water supply	68,982	45,238
Others	<u>–</u>	<u>87,945</u>
Total	<u>282,958</u>	<u>161,190</u>

Based on our current business plan, we expect to incur capital expenditure amounting to RMB36.3 million for the year ending 31 December 2026. Our anticipated capital expenditure is subject to change from time to time based on the reassessment of our business plan, prevailing market conditions, regulatory environment and outlook of our future operational results.

5. Off-balance sheet arrangements

Save as disclosed in this announcement, as of 31 December 2025, we did not have any outstanding off-balance sheet guarantees, commodity forward contracts or other off-balance sheet arrangements. We do not engage in trading activities involving non-exchange traded contracts. The Group's policy is not to participate in and invest in any financial products that are speculative and/or have significant risks. In the course of our normal business, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

6. Exchange rate risk and management

All foreign currency borrowings of the Group for the current period have been repaid, and there was no balance of foreign currency borrowings at the end of the year. Therefore, the Group did not face significant exchange rate risks and did not use financial instruments to hedge against such risks as at the end of the Reporting Period.

7. Employees and remuneration policies

Relationship with Employees

As of 31 December 2025, we had 1,073 full-time employees, all of whom were in China and most of whom were based in Yunnan. The following table sets forth the breakdown of our employees by function as of 31 December 2025:

Function	Number
Management and Administration	192
Finance	44
Research and Development	57
Quality Monitoring	196
Marketing	21
Operations	519
Construction and Maintenance	<u>44</u>
Total	<u><u>1,073</u></u>

We recruit our employees on the open market. Compensation for our employees includes post wages, performance-based wages, allowances and subsidies, overtime payment, bonuses and other staff benefits. For the years ended 31 December 2024 and 2025, our employee benefits expenses amounted to approximately RMB171.6 million and RMB145.5 million, respectively.

We believe our employees are the most valuable resources to achieve our success. To ensure the quality of our employees at all levels, we have in-house training programs to train our staff. New employees at our production facility receive trainings pertinent to their job duties. We have established a science and technology innovation training center, which provides more training courses for our employees.

The labor union communicates closely with the management regarding labor matters and represents our employees' interests. During the Reporting Period, we had not experienced any interruptions to our operations caused by major labor disputes and there were no complaints or claims from our employees which had a material adverse effect on our business. The Directors believe that we have a good relationship with our employees. During the Reporting Period, the Group had no major labor disputes which might produce significant impact on the normal business and operation of the Group.

8. Contingent liabilities

As of 31 December 2025, the Group did not have any significant contingent liabilities.

9. Material charges on assets

As at 31 December 2025, the Group's secured bank borrowings and other borrowings are secured by:

- (i) certain rights and income of wastewater treatment, water supply and other concession rights (comprising operating concessions and receivables under service concession arrangements) which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors;
- (ii) certain equipment of the Group's wastewater treatment facilities;
- (iii) the entire interest in and revenue arising from the waste sanitary landfill managed by the Group under the relevant waste sanitary landfill concession agreements signed with the grantors; and
- (iv) the Group's pledge of equity interests in certain subsidiaries held by it.

10. Major investment and acquisition

On 29 September 2021, the Company (as the asset entrustor) entered into an asset management agreement (the "**Mutual Trust No. 5 Asset Management Agreement**") with Bosera Capital Management Co., Ltd. (as the asset manager) and Kunming Branch of China Merchants Bank Company Limited* (招商銀行股份有限公司昆明分行) ("**China Merchants Bank**") (as the asset trustee) in relation to the investment and management of the entrusted assets. Pursuant to the agreement, the Company agreed to entrust an amount of RMB300 million as the entrusted assets for investment in the credits of accounts receivable held by Kunming Agricultural Development Investment Co., Ltd. ("**KADI**") for a term of 3 months. The Company invested RMB300 million in such asset management plan. On 31 December 2021, the parties to the agreement entered into a supplemental agreement in relation to the extension of the term of the Mutual Trust No. 5 Asset Management Agreement, extending the term of the Mutual Trust No. 5 Asset Management Agreement and the asset management plan thereunder to 10 April 2022. For details, please refer to the announcements of the Company dated 29 September 2021 and 31 December 2021.

The Mutual Trust No. 5 Asset Management Agreement has expired on 10 April 2022. As at the maturity date, the asset manager allocated the assets under the asset management plan to the Company in their current status as at the maturity date in accordance with the terms of the Mutual Trust No. 5 Asset Management Agreement. For details, please refer to the announcement of the Company dated 11 April 2022.

As at the end of the Reporting Period, such asset management plan accounted for approximately 0.4% of the total assets of the Company. As at the date of this announcement, KADI has yet to fully repurchase such creditor's rights of the trade receivables.

The Company intends to invest RMB69.3 million to implement the Expansion and Renovation Project of Kunming No. 7 and No. 8 Water Purification Plants. To ensure the smooth implementation of the Expansion and Renovation Project, the Company entered into the Engineering, Procurement and Construction General Contracting (EPC) Contract for the Expansion and Renovation Project of Kunming No.7 and No.8 Water Purification Plants (《昆明市第七、八水質淨化廠擴容改造項目設計、採購及施工總承包(EPC)合同》) (the “**EPC Contract**”) with the joint contractors (i.e. China Railway No.10 Engineering Group Co., Ltd. and Beijing General Municipal Engineering Design & Research Institute Co., Ltd.) on 6 July 2025 in accordance with the tender results. Pursuant to which, the Company agreed to entrust and the joint contractors agreed to provide engineering services, procurement, and construction work for the Company's Expansion and Renovation Project. The consideration underlying the EPC Contract is approximately RMB57.7 million. For details, please refer to the announcement of the Company dated 8 July 2025.

During the Reporting Period, the Group did not have any significant investment with a value of 5% or more of the Group's total assets as of 31 December 2025 (including any investment in an investee with a value of 5% or more of the Group's total assets as of 31 December 2025).

The Company's investments mainly focus on its main business. Prior to project investment, the Company will conduct feasibility study and analysis of the relevant project to confirm that the project is feasible and meets the rate of return required by the Company before implementation. On the basis of prioritising the investments in the main business and related industries, and in accordance with the progress of project implementation, the Company will manage idle funds, if any, to improve the efficiency of capital utilisation on the premise of keeping the risks under control. The management and use of idle funds of the Company are currently mainly aimed at ensuring the safety of funds and achieving reasonable returns. The Company will not invest in non-principal guaranteed investment products such as financial assets held for trading.

Save as disclosed above, the Group had no new plans of major investments or capital and asset acquisition as of 31 December 2025.

11. Material acquisition and disposal of subsidiaries, associates and joint ventures

During the Reporting Period, the Group did not enter into any new material acquisition or disposal contracts involving subsidiaries, associates, or joint ventures.

12. Loans to Certain Entities

On 9 June 2022, the Company entered into the entrusted loan contract (the “**Entrusted Loan Contract**”) with Kunming Municipal Urban Construction Investment & Development Co., Ltd.* (昆明市城建投資開發有限責任公司) (“**Kunming Construction**”) and Kunming Panlong District Rural Credit Cooperative* (昆明市盤龍區農村信用合作聯社) (“**Panlong District Rural Credit Cooperative**”), pursuant to which the Company entrusted Panlong District Rural Credit Cooperative to provide a loan of RMB310 million to Kunming Construction with an annual interest rate of 8.5% which shall become due on 8 June 2023. KDI provided a full and joint liability guarantee for the entrusted loan transaction under the Entrusted Loan Contract; on 9 June 2023, the parties entered into the entrusted loan extension agreement (the “**Entrusted Loan Extension Agreement I**”) for the Entrusted Loan Contract to extend the term of RMB180 million of the principal amount thereunder to 8 June 2024; on 29 April 2024, the parties entered into the entrusted loan extension agreement (the “**Entrusted Loan Extension Agreement II**”) for the Entrusted Loan Contract and the Entrusted Loan Extension Agreement I to extend the term of RMB180 million of the principal amount thereunder to 7 June 2026. For details, please refer to the announcements of the Company dated 9 June 2022, 9 June 2023, 12 June 2023 and 29 April 2024, respectively, and the circular dated 17 May 2024.

On 24 October 2022, the Company entered into the entrusted loan contract (the “**Chenggong District Entrusted Loan Contract**”) with Kunming Development Investment Group Co., Ltd.* (昆明發展投資集團有限公司) (“**Kunming DIG**”) and Kunming Chenggong District Rural Credit Cooperative* (昆明市呈貢區農村信用合作聯社) (“**Chenggong District Rural Credit Cooperative**”), pursuant to which the Company entrusted Chenggong District Rural Credit Cooperative to provide a loan of RMB200 million to Kunming DIG with an annual interest rate of 8.5% which shall become due on 24 September 2023; on 22 September 2023, the parties entered into the entrusted loan extension agreement (the “**Chenggong District Entrusted Loan Extension Agreement I**”) and the supplemental entrusted loan extension agreement (the “**Supplemental Entrusted Loan Extension Agreement I**”) for the Chenggong District Entrusted Loan Contract to extend the term of entrusted loan with principal amount of RMB200 million to 24 August 2024. On 15 July 2024, the parties entered into the entrusted loan extension agreement (the “**Chenggong District Entrusted Loan Extension Agreement II**”) for the Chenggong District Entrusted Loan Contract, the Chenggong District Entrusted Loan Extension Agreement I and the Supplemental Entrusted Loan Extension Agreement I to extend the term of entrusted loan with principal amount of RMB200 million to 24 July 2025. On 19 May 2025, the parties entered into the entrusted loan extension agreement (the “**Chenggong District Entrusted Loan Extension Agreement III**”) for the Chenggong District Entrusted Loan Contract, the Chenggong District Entrusted Loan Extension Agreement I, the Supplemental Entrusted Loan Extension Agreement I and the Chenggong District Entrusted Loan Extension Agreement II to extend the term of entrusted loan with principal amount of RMB200 million to 24 June 2026 with an annual interest rate of 6.0%. For details, please refer to the announcements of the Company dated 24 October 2022, 22 September 2023, 13 November 2023, 15 July 2024 and 19 May 2025, respectively, and the circular dated 6 June 2025.

On 16 June 2023, the Company entered into the entrusted loan contract with Kunming Anju Group Co., Ltd.* (昆明市安居集團有限公司) (formerly known as Kunming Public Rental Housing Development & Construction Management Co., Ltd.* (昆明市公共租住房開發建設管理有限公司)) (“**Anju Group**”) and Jinma Branch of Kunming Guandu Rural Cooperative Bank* (昆明官渡農村合作銀行金馬支行) (“**Jinma Branch of Guandu Rural Cooperative Bank**”), pursuant to which the Company entrusted Jinma Branch of Guandu Rural Cooperative Bank to provide a RMB80 million loan to Anju Group with an annual interest rate of 8.5% and a term commencing on 16 June 2023 and ending on 16 June 2024. On 13 June 2024, the parties entered into the entrusted loan extension agreement (the “**Guandu Rural Cooperative Bank Entrusted Loan Extension Agreement I**”) for the entrusted loan contract to extend the term of entrusted loan with principal amount of RMB72 million to 16 June 2025. On 13 June 2025, the parties entered into the entrusted loan extension agreement (the “**Guandu Rural Cooperative Bank Entrusted Loan Extension Agreement II**”) for the entrusted loan contract and the Guandu rural cooperative bank entrusted loan extension agreement I to extend the term of entrusted loan with principal amount of RMB72 million to 16 June 2026 with an annual interest rate of 6.0%. For details, please refer to the announcements of the Company dated 16 June 2023, 13 June 2024 and 13 June 2025 respectively.

On 29 April 2024, the Company entered into the mutual guarantee agreement with Kunming Water Group Co., Ltd.* (昆明市水務集團有限責任公司) (formerly known as Kunming Water Supply Group Co., Ltd.* (昆明自來水集團有限公司)) (“**Kunming Water Group**”), pursuant to which the Company and Kunming Water Group agreed to provide guarantees in respect of the liabilities relating to the loans obtained by the other party for a cumulative amount of not more than RMB500 million each, which shall be non-recurring upon full utilization of the amount, and the term of the guarantees to be provided in respect of each loan shall not be more than five years from the date of signing of each loan guarantee agreement. On 11 November 2025, the Company and Kunming Water Group entered into the Financing Guarantee Framework Agreement, pursuant to which Kunming Water Group will unilaterally provide an additional guarantee of up to RMB500 million in aggregate for loans/ credit facilities granted to the Company and its absolutely controlled subsidiaries, and the guarantee amount can be utilized in a recurring manner.

As of the end of the Reporting Period, Kunming Water Group has provided guarantees for the Company’s loans of RMB103.8 million, and the amount of guarantees provided by the Company for Kunming Water Group was RMB100.0 million (for details, please refer to the announcements of the Company dated 29 April 2024 and 11 November 2025 and the circular of the Company dated 22 May 2024).

According to the knowledge of the Company, Kunming Construction, Kunming DIG, Anju Group and Kunming Water Group are all controlled or held by the State-owned Assets Supervision and Administration Commission of the Kunming People’s Government (昆明市人民政府國有資產監督管理委員會) (“**Kunming SASAC**”), and Kunming DIG holds approximately 15.58% of the shares of Kunming Construction. Save as disclosed above, Kunming Construction, Kunming DIG, Anju Group and Kunming Water Supply Group are not related to each other, and neither are they the connected persons as defined in the Listing Rules.

On the basis of prioritising the investments in the main business and related industries, and in accordance with the progress of project implementation, the Company will manage idle funds, if any, to improve the efficiency of capital utilisation and increase revenue on the premise of keeping the risks under control. When selecting counterparties, we will conduct necessary due diligence on them, including the assessment of their financial position, cash flow situation, ultimate beneficial owners and legal risks, etc., and consider the risk of capital recovery based on the counterparties' operating conditions and past cooperation. In terms of the method of granting loans, we will grant funds through bank entrusted loans to incorporate the repayment of principal and interest by counterparties into the bank credit supervision system, promote counterparties to perform their obligations of repayment of principal and interest pursuant to contracts, and reduce the risk of the Company. When granting loans, we will determine the interest rate of loans to be granted with reference to the then applicable loan prime rate for RMB loans of the same period and our own financing costs, so as to protect the Company's reasonable returns. In terms of the approval of granting loans, the Company has formulated policies such as the "Three Important and One Large Matters (三重一大)", which together with the articles of association of the Company (the "**Articles of Association**") stipulate clear division of the relevant approval authority for granting funds. During the Reporting Period, the approval procedures for granting loans have been effectively implemented as required. In the future, the Company will continue to pay attention to the operation of the counterparties by continuously obtaining the periodic financial information of the counterparties and enquiring the market information. If there are significant changes in the financial position and operation of the counterparties, the management of the Company and the Board will follow up and take corresponding measures in a timely manner to ensure the safety of the Company's capital. After comprehensive assessment, there were no indications of significant impairment for the abovementioned entrusted loans as of 31 December 2025. None of the asset ratios (as defined under Rule 14.07(1) of the Listing Rules) in respect of the aforementioned entrusted loans exceeded 8% such that disclosure is required under Rule 13.15 of the Listing Rules.

13. Pledge of Shares by the Controlling Shareholder

On 24 October 2022, KDI, the controlling shareholder, entered into an agreement with Agricultural Bank of China Limited Kunming Dianchi National Tourism Resort Sub-branch (the "**Lender**"), to pledge up to 198,080,068 domestic shares in the issued shares of the Company (the "**Pledged Shares**"), in favour of the Lender as security for a loan facility in an aggregate amount of RMB200,000,000 granted to the Company (the "**Loan Facility**"). The Pledged Shares represent approximately 19.25% of the total issued shares of the Company, and are expected to be discharged and released upon repayment of the Loan Facility in full. For details, please refer to the announcement of the Company dated 23 October 2022. As of the end of the Reporting Period, the Loan Facility has matured and the Company has fulfilled all related repayment obligations, while the procedures for the release of the Pledged Shares are still in process.

14. Facility agreement subject to due performance of specific conditions by the controlling shareholder

On 25 March 2022, Dianchi International Holdings Limited (the “**Borrower**”), a direct wholly-owned subsidiary of the Company, as borrower and the Company as guarantor signed a facility agreement (“**Facility Agreement**”) with various banks (the “**Banks**”). Pursuant to the Facility Agreement, the Banks will provide the banking facilities of up to USD300 million or equivalent foreign currency (the “**Facility**”) to the Borrower. The final repayment date of the Facility shall be the date falling 36 months after the first withdrawal date. Pursuant to the Facility Agreement, if Kunming SASAC no longer directly or indirectly owns more than 51% of the share capital of the Company, it would be deemed as a change of control, and the Banks would be entitled to cancel their loan facilities pursuant to the Facility Agreement and to declare that all amounts outstanding under the Facility (including interests accrued) and all other amounts shall immediately become due and payable (unless waived by the majority of the Banks). For details, please refer to the Company’s announcement dated 25 March 2022. In 2023, the Company entered into a pledge of receivables contract with Bank of Communications (Hong Kong) Limited (as the guarantee agent), pursuant to which the Company pledged the trade receivables of RMB800 million held by it to Bank of Communications (Hong Kong) Limited to provide guarantee for the loans under the loan agreement signed by the Group on 25 March 2022.

During the Reporting Period, the Company has fully performed all its obligations for the repayment of principal and interest under the Facility Agreement in accordance with the relevant provisions of the Facility Agreement.

III. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is mainly engaged in sewage treatment, reclaimed water and running water supply and environmental protection related industries. During the Reporting Period, the Company focused on its main business, continuously enhancing the operational capabilities of its sewage treatment and reclaimed water supply businesses, and consistently improving internal management efficiency. At the same time, the Company attaches great importance to maintaining a high standard of corporate governance. The Board is dedicated to creating long-term value for shareholders, is responsible for leading and monitoring the Company and is responsible for the strategic planning, business development, compliance governance and cultural promotion, environmental, social and governance management and supervision to ensure that relevant strategies and culture are in line with the Company's development direction and that corporate governance continues to be effective, so as to enhance shareholders' value and protect shareholders' rights and interests and provide effective guarantees for the Company's sustainable high-quality development.

The Company has adopted the Corporate Governance Code (the "CG Code") as contained in Appendix C1 to the Listing Rules as its own corporate governance code. The Company has established and enhanced the corporate governance structure in accordance with the Listing Rules and the CG Code and has set up a series of corporate governance policies. The Directors believe that during the Reporting Period, the Company has been observing all mandatory code provisions as stipulated in the CG Code except for provision B.2.2.

Under code provision B.2.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. As at the end of the Reporting Period, the terms of office of the first Board had reached 3 years, but the work for the nomination of relevant candidates has not yet been completed. At the same time, the Board considers the continuity of the operation of the Board. Under the relevant provisions of the Articles of Association, if, upon the expiry of a director's term of office, a new director cannot be elected on a timely basis, before the re-elected director commences his/her term of office, such director shall continue to perform his/her duties in accordance with the laws, administrative regulations, departmental rules and the Articles of Association. Therefore, the Board considers that deviations from provision B.2.2 of the CG Code will not have a significant impact on the Group's operation as a whole, and the Company will complete the relevant work as soon as possible.

The Board will examine and review, from time to time, the Company's corporate governance practices and operation in order to comply with the relevant provisions under the Listing Rules and to protect shareholders' interests.

IV. COMPLIANCE WITH THE MODEL CODE FOR SECURITIES DEALINGS BY THE DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules (the “**Model Code**”) as its own code of conduct for its directors, supervisors and relevant employees (has the same meaning ascribed to it under the CG Code) in respect of their dealings in the Company’s securities. After making specific enquiries to all of the Directors and supervisors of the Company (the “**Supervisors**”), the Directors and Supervisors confirmed that they had strictly complied with the required standards as set out in the Model Code during the Reporting Period (in the case of Supervisors, for the period from 1 January 2025 to 27 June 2025).

V. PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had made any purchase, sale or redemption of the Company’s listed securities during the Reporting Period (including sale of treasury shares (as defined under the Listing Rules)). The Company did not have any treasury shares (as defined under the Listing Rules) as of 31 December 2025.

VI. AUDIT COMMITTEE

The audit committee of the Company has reviewed the Financial Statements of the Group for the year ended 31 December 2025 prepared in accordance with the International Financial Reporting Standards in 2025.

VII. SCOPE OF WORK OF THE COMPANY’S AUDITOR

The figures in respect of the Company’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2025 as set out in the preliminary announcement have been agreed by the Company’s auditor, Forvis Mazars CPA Limited to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by the Company’s auditor in this respect did not constitute an assurance engagement and consequently no assurance has been expressed by the Company’s auditor on the preliminary announcement.

VIII. FINAL DIVIDEND

Taking into account the future plans and the financial position and cash flow position of the Company, the Board does not recommend the distribution of a final dividend for the year ended 31 December 2025 (for the year ended 31 December 2024: no final cash dividend).

IX. PUBLICATION OF ANNUAL REPORT

The annual report of the Company for the year ended 31 December 2025 will be published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kmdcwt.com) in due course in accordance with the requirements of the Listing Rules. Meanwhile, shareholders of the Company may choose to receive the annual report of the Company for the year ended 31 December 2025 in printed form or browsing and downloading on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kmdcwt.com) in accordance with the relevant policy of “New Arrangements on Dissemination of Corporate Communications” published by the Company on 31 January 2024.

By order of the Board
Kunming Dianchi Water Treatment Co., Ltd.
Zeng Feng
Chairperson and executive Director

Kunming, the PRC, 20 March 2026

As at the date of this announcement, the Board comprises Mr. Zeng Feng, Mr. Chen Changyong and Ms. Lian Zhaoju, as executive Directors; Mr. Xu Jingdong, Ms. Cheng Yijing and Ms. Gao Yuan, as non-executive Directors; and Mr. Zha Guiliang, Ms. Fu Jifang and Dr. Chan Ho Wah Terence, as independent non-executive Directors.

* *For identification purposes only*