KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED
康 達 國 際 環 保 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 6136)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019

HIGHLIGHTS

- Revenue was approximately RMB1,412.6 million, representing a decrease of approximately 12% over the corresponding period last year.
- Gross profit was RMB595.3 million, representing an increase of approximately 7% over the corresponding period last year; while gross profit margin was 42%, representing an increase of 7 percentage points over the corresponding period last year.
- Earnings before interest, taxes, depreciation and amortization was RMB564.7 million, representing an increase of approximately 12% over the corresponding period last year.
- Profit attributable to owners of the parent was RMB183.6 million, basically the same with the corresponding period last year.
- Basic and diluted earnings per share attributable to ordinary equity holders of the parent was RMB8.98 cents, representing a slight increase as compared with RMB8.93 cents over the corresponding period last year.
- The Board did not recommend the payment of interim dividend for the six months ended 30 June 2019.

The board (the "Board") of directors (the "Directors") of Kangda International Environmental Company Limited (the "Company") is pleased to announce the unaudited interim condensed consolidated financial results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2019 (the "Reporting Period") together with the comparative figures for the corresponding period in 2018 and the relevant explanatory notes as set out below.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six-month period ended 30 June 2019

	Notes	For the six-month period ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
REVENUE	4	**1,412,568**	1,607,487
Cost of sales		**(817,303)**	(1,049,581)
Gross profit		**595,265**	557,906
Other income and gains	5	**68,214**	87,464
Selling and distribution expenses		**(3,388)**	(7,751)
Administrative expenses		**(120,267)**	(143,002)
Other expenses		**(2,593)**	(11,739)
Finance costs	6	**(273,681)**	(224,039)
Share of profits and losses of:			
Associates		**(3,999)**	(3,613)
Joint ventures		**1,372**	(1,883)
PROFIT BEFORE TAX	7	**260,923**	253,343
Income tax expense	8	**(71,987)**	(67,830)
PROFIT FOR THE PERIOD		**188,936**	185,513
Profit attributable to:			
Owners of the parent		**183,595**	183,660
Non-controlling interests		**5,341**	1,853
		188,936	185,513
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		**RMB**	RMB
— Basic and diluted	9	**8.98 cents**	8.93 cents
OTHER COMPREHENSIVE EXPENSE			
Other comprehensive expense that will not be reclassified to profit or loss in subsequent periods, net of tax:			
Fair value loss on equity investments designated at fair value through other comprehensive income		**(112,200)**	(94,350)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**76,736**	91,163
Total comprehensive income attributable to:			
Owners of the parent		**71,395**	89,310
Non-controlling interests		**5,341**	1,853
		76,736	91,163

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	**30 June 2019** *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**137,573**	143,167
Investment properties		**10,178**	10,524
Investments in associates		**244,553**	221,843
Investment in joint ventures		**141,776**	140,403
Equity investments designated at fair value through other comprehensive income		**357,000**	489,000
Service concession intangible assets		**824,795**	737,174
Other intangible assets		**3,409**	3,554
Contract assets		**2,678,590**	2,281,930
Goodwill		**60,219**	60,219
Financial receivables	*10*	**6,485,578**	6,430,669
Deferred tax assets		**116,388**	90,383
Right-of-use assets		**4,824**	–
Other non-current assets		**–**	793,030
Prepayments, other receivables and other assets		**325,168**	427,855
Total non-current assets		**11,390,051**	11,829,751
CURRENT ASSETS			
Inventories		**14,921**	14,556
Contract assets		**328,712**	209,474
Financial receivables	*10*	**1,471,544**	1,400,911
Trade and bills receivables	*11*	**1,385,073**	1,295,999
Prepayments, other receivables and other assets		**619,744**	618,563
Pledged deposits		**224,444**	179,727
Other current assets		**743,324**	–
Cash and cash equivalents		**150,351**	976,246
Total current assets		**4,938,113**	4,695,476
CURRENT LIABILITIES			
Trade and bills payables	*12*	**1,634,226**	1,628,869
Other payables and accruals		**392,481**	506,968
Deferred income		**4,658**	19,650
Interest-bearing bank and other borrowings		**3,524,764**	3,011,743
Corporate bonds		**11,394**	671,394
Tax payable		**28,146**	28,807
Total current liabilities		**5,595,669**	5,867,431
NET CURRENT LIABILITIES		**(657,556)**	(1,171,955)
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,732,495**	10,657,796

	Notes	**30 June 2019** *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
NON-CURRENT LIABILITIES			
Trade payables	*12*	**4,732**	9,396
Interest-bearing bank and other borrowings		**4,012,585**	4,084,177
Corporate bonds		**1,467,147**	1,469,105
Deferred income		**–**	10,333
Other payables and accruals		**37,639**	–
Deferred tax liabilities		**811,023**	763,112
Total non-current liabilities		**6,333,126**	6,336,123
Net assets		**4,399,369**	4,321,673
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**16,143**	16,143
Reserves		**4,171,428**	4,098,510
		4,187,571	4,114,653
Non-controlling interests		**211,798**	207,020
Total equity		**4,399,369**	4,321,673

1. CORPORATE AND GROUP INFORMATION

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

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

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial information for the six-month period ended 30 June 2019 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board and in compliance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

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

Going concern

As at 30 June 2019, the Group's current liabilities exceeded its current assets by approximately RMB657,556,000 (31 December 2018: net current liabilities: RMB1,171,955,000). In addition, the Group has contracted capital commitments of RMB218,834,000 and commitments in respect of service concession arrangements of RMB3,204,701,000. As at the date of approval of these interim condensed consolidated financial statements, the directors of the Company have considered the Group's available sources of funds subsequent to 30 June 2019, which are as follows:

(i) Additional bank loans and facilities were already obtained during July 2019 and August 2019;

(ii) Bank loans and facilities expected to be obtained or renewed which the directors of the Company are confident that such loans and facilities will be obtained or continuously renewed upon their respective expirations in the foreseeable future based on the Group's past experience, good credit standing and/or latest communications with the relevant financial institutions;

(iii) Unutilised facilities to issue domestic medium-term notes by the Group as approved by the relevant PRC government authorities; and

(iv) Expected cash inflows arising from the Group's operating activities subsequent to 30 June 2019.

In light of the available funding as mentioned above, and after taking into account the operating performance of the Group and cash flow projection prepared by the directors of the Company. The directors of the Company are confident that the Group will have sufficient working capital to meet with its financial obligations and operation requirements in the foreseeable future of at least up to 30 June 2020. Hence the directors of the Company are of the opinion that it is appropriate to prepare these interim condensed consolidated financial statements under the going concern basis.

2.2 Impact of new and revised International Financial Reporting Standards ("IFRSs")

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new and revised standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 16 Leases. As required by IAS 34, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 16	*Leases*
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term interests in associates and joint ventures*
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatment*
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases — Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) *RMB'000* (Unaudited)
Assets	
Increase in right-of-use assets	6,387
Increase in total assets	6,387
Liabilities	
Increase in interest-bearing bank and other borrowings	6,387
Increase in total liabilities	6,387
Decrease in retained earnings	–

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000 (Unaudited)
Operating lease commitments as at 31 December 2018	14,228
Weighted average incremental borrowing rate as at 1 January 2019	4.91%
Discounted operating lease commitments as at 1 January 2019	7,941
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	1,554
Lease liabilities as at 1 January 2019	6,387

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

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

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

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease equipment for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within 'interest-bearing bank and other borrowings'), and the movement during the period are as follow:

	Right-of-use assets		
	Plant and machinery	**Sub total**	**Lease liabilities**
	RMB'000	***RMB'000***	***RMB'000***
As at 1 January 2019			
Additions	**6,387**	**6,387**	**6,387**
Depreciation charge	**(1,562)**	**(1,562)**	**–**
Interest expense	**–**	**–**	**155**
Payments	**–**	**–**	**(1,478)**
As at 30 June 2019	**4,825**	**4,825**	**5,064**

The Group recognised rental expenses from short-term leases of RMB1,193,000 for the six months ended 30 June 2019.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Amendments to IFRS 9 allow financial assets with prepayment features that permit or require either the borrower or the lender to pay or receive reasonable compensation for the early termination of a contract to be measured at amortised cost or at fair value through other comprehensive income, rather than at fair value through profit or loss. The amendments clarify that a financial asset passes the "solely payments of principal and interest on the principal amount outstanding" criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for that early termination. The amendments did not apply to the Group as the Group did not have any debt instruments with prepayment features along with compensation for early termination. In addition, as clarified in the amendments to the basis for conclusions on IFRS 9, the gain or loss arising on modification of a financial liability that does not result in derecognition (calculated by discounting the change in contractual cash flows at the original effective rate) is immediately recognised in profit or loss. The Group's accounting policy is consistent with this clarification and therefore the adoption of the amendments has no impact on the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

Amendments to IAS 19 address the accounting for a defined benefit plan when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to (i) determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability or asset reflecting the benefits offered under the plan and the plan assets after that event, and (ii) determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability or asset, reflecting the benefits offered under the plan and the plan assets after that event and the discount rate used to remeasure that net defined benefit liability or asset.

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in net interest, is recognised in other comprehensive income. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

Amendments to IAS 28: Long-term interests in associates and joint ventures

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the Group's interim condensed consolidated financial information.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

IFRIC-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

Annual Improvements 2015-2017 Cycle

- IFRS 3 Business Combinations: Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

- IFRS 11 Joint Arrangements: Clarifies that when an entity that participates in (but does not have joint control of) a joint operation obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

- IAS 12 Income Taxes: Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividends. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

- IAS 23 Borrowing Costs: Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

3. OPERATING SEGMENT INFORMATION

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

(a) the segment of Urban Water Treatment engages in the design, construction, upgrade and operation of WTPs, RWTPs, STPs, WDPs, and in the O&M (operation and maintenance of waste water treatment facilities entrusted by governments);

(b) the segment of Water Environment Comprehensive Remediation engages in river harnessing and improvement, foul water body treatment, sponge city construction, pipeline network projects and urban comprehensive pipe tunnel; and

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

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

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

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

For the six-month period ended 30 June 2019 (Unaudited)	Urban Water Treatment *RMB'000*	Water Environment Comprehensive Remediation *RMB'000*	Rural Water Improvement *RMB'000*	Total *RMB'000*
Segment revenue				
Sales to external customers	**1,304,366**	**75,344**	**32,858**	**1,412,568**
	1,304,366	**75,344**	**32,858**	**1,412,568**
Segment results	**360,487**	**62,349**	**5,883**	**428,719**
Reconciliation:				
Unallocated income and gains				**37,716**
Share of loss of unallocated associates				**(4,702)**
Share of profit of an unallocated joint venture				**156**
Corporate and other unallocated expenses				**(36,276)**
Unallocated finance costs				**(164,690)**
Profit before tax for the period				**260,923**
Other segment information				
Share of profit of associates	**–**	**703**	**–**	**703**
Share of loss of unallocated associates				**(4,702)**
Share of profit and loss of joint ventures	**(544)**	**1,760**	**–**	**1,216**
Share of profit of an unallocated joint venture				**156**
Depreciation and amortization	**25,597**	**513**	**–**	**26,110**
Unallocated depreciation and amortization				**3,959**
Total depreciation and amortization				**30,069**
At 30 June 2019 (Unaudited)				
Segment assets	**12,622,213**	**1,545,714**	**478,748**	**14,646,675**
Reconciliation:				
Corporate and other unallocated assets				**1,681,489**
Total assets				**16,328,164**
Segment liabilities	**9,387,530**	**599,245**	**391,014**	**10,377,789**
Reconciliation:				
Corporate and other unallocated liabilities				**1,551,006**
Total liabilities				**11,928,795**
Other segment information				
Investments in associates	**–**	**228,004**	**–**	**228,004**
Unallocated investments in associates				**16,549**
Investments in joint ventures	**75,941**	**51,915**	**–**	**127,856**
Unallocated investment in a joint venture				**13,920**
Capital expenditure	**209,513**	**–**	**32,858**	**242,371**
Unallocated amounts				**24**
Total capital expenditure*				**242,395**

* Capital expenditure consists of additions to property, plant and equipment and intangible assets during the six-month period ended 30 June 2019.

For the six-month period ended 30 June 2018 (Unaudited)	Urban Water Treatment *RMB'000*	Water Environment Comprehensive Remediation *RMB'000*	Rural Water Improvement *RMB'000*	Total *RMB'000*
Segment revenue				
Sales to external customers	1,221,181	351,099	35,207	1,607,487
	1,221,181	351,099	35,207	1,607,487
Segment results	370,352	37,802	6,219	414,373
Reconciliation:				
Unallocated income and gains				23,382
Share of loss of associates				(3,491)
Corporate and other unallocated expenses				(53,095)
Unallocated finance costs				(127,826)
Profit before tax for the period				253,343
Other segment information				
Share of profit and loss of associates	2,818	(2,940)	–	(122)
Share of loss of unallocated associates				(3,491)
Share of loss of joint ventures	(766)	(1,117)	–	(1,883)
Losses on disposal of an associate	(8,154)	–	–	(8,154)
Depreciation and amortization	24,243	83	–	24,326
Unallocated depreciation and amortization				2,657
Total depreciation and amortization				26,983
At 31 December 2018 (Audited)				
Segment assets	12,321,734	1,542,337	477,392	14,341,463
Reconciliation:				
Corporate and other unallocated assets				2,183,764
Total assets				16,525,227
Segment liabilities	8,942,306	654,519	390,707	9,987,532
Reconciliation:				
Corporate and other unallocated liabilities				2,216,022
Total liabilities				12,203,554
Other segment information				
Investments in associates	–	200,591	–	200,591
Unallocated investments in associates				21,252
Investments in joint ventures	76,484	50,155	–	126,639
Unallocated investments in joint ventures				13,764
Capital expenditure	10,272	44	35,212	45,528
Unallocated amounts				15,509
Total capital expenditure*				61,037

* Capital expenditure consists of additions to property, plant and equipment and intangible assets during the six-month period ended 30 June 2018.

4. REVENUE

Revenue represents: (1) an appropriate proportion of contract revenue of construction contracts under Build-Operate-Transfer (the "BOT") arrangements, Engineering Procurement Construction (the "EPC") arrangements and other construction service projects, net of tax and government surcharges; (2) the revenue from operation of WTPs, RWTPs, WDPs, STPs or other municipal infrastructures under BOT arrangements, Transfer-Operate-Transfer (the "TOT") arrangements, and the provision of Operation and Maintenance services; and (3) financial income on financial receivables. The amount of each significant category of revenue during the six-month period ended 30 June 2019 is as follows:

	For the six-month period ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from construction services	**679,773**	931,276
Revenue from operation services	**433,714**	404,485
Financial income	**299,081**	271,726
	1,412,568	1,607,487

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

The aggregated revenue from construction services, operation services and financial income derived in Mainland China amounted to RMB1,412,568,000 and RMB1,607,487,000 for the six months ended 30 June 2019 and 2018, respectively.

5. OTHER INCOME AND GAINS

	For the six-month period ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Government grants *(note a)*	**21,539**	53,566
Investment income	**17,420**	126
Interest income from loans to third parties	**11,478**	8,475
Dividend income from equity investments designated at fair value through other comprehensive income	**9,143**	14,325
Interest income from loans to an associate and joint ventures	**3,622**	2,041
Bank interest income	**2,665**	3,819
Gain on disposal of a subsidiary	**1,595**	–
Rental income less depreciation of investment properties	**259**	282
Foreign exchange differences, net	**–**	4,291
Others	**493**	539
	68,214	87,464

Note:

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

6. FINANCE COSTS

	For the six-month period ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings	**205,492**	162,192
Interest on corporate bonds	**68,034**	61,847
Interest on lease liabilities	**155**	–
	273,681	224,039

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	For the six-month period ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost for construction services	**527,258**	801,206
Cost for operation services	**290,045**	248,375
Total of cost of sales	**817,303**	1,049,581
Depreciation of property, plant and equipment	**5,625**	5,931
Depreciation of investment properties	**346**	351
Depreciation of right-of-use assets	**1,562**	–
Amortisation of service concession intangible assets	**22,379**	20,545
Amortisation of other intangible assets	**157**	156
Interest expense on lease liabilities	**155**	–
Write-off of impairment of trade receivables	**–**	2,567
Impairment of trade receivables and other receivables	**1,209**	444
Auditor's remuneration	**650**	650
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries and allowances, social securities and benefits	**108,134**	119,155
Pension scheme contributions (defined contribution scheme)	**11,190**	12,294
Total employee benefit expense	**119,324**	131,449
Losses on disposal of an associate	**–**	8,154

8. INCOME TAX EXPENSE

Pursuant to The PRC Enterprise Income Tax Law Implementing Regulations (中華人民共和國企業所得稅法實施條例), most of the subsidiaries established in the PRC, engaged in the operations of wastewater treatment projects, are eligible for tax holiday of a three-year full exemption followed by a three-year half exemption commencing from their respective first year of generating operating revenue (the "3+3 Tax Holiday"). As at 30 June 2019, these subsidiaries were already qualified for the 3+3 Tax Holiday or in the process of preparation and submission of the required documents to the respective tax authorities to apply for the 3+3 Tax Holiday.

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

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

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

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong for the six-month period ended 30 June 2019 (six-month period ended 30 June 2018: Nil).

The major components of income tax expense in the unaudited interim condensed consolidated statements of profit or loss and other comprehensive income are:

	For the six-month period ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax		
— Mainland China	**30,204**	35,390
Deferred income tax	**41,783**	32,440
Income tax charge for the period	**71,987**	67,830

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

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period.

The diluted earnings per share was calculated by dividing the profit for the six-month period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

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

	For the six-month period ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings:		
Profit for the period attributable to ordinary equity holders of the parent	**183,595**	183,660

	Number of Shares 30 June 2019 (Unaudited)	Number of Shares 30 June 2018 (Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	**2,044,676,000**	2,057,040,000

The Company did not issued any new shares during the six-month period ended 30 June 2019.

10. FINANCIAL RECEIVABLES

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Receivables for service concession arrangements	**7,957,122**	7,831,580
Portion classified as current	**(1,471,544)**	(1,400,911)
Non-current portion	**6,485,578**	6,430,669

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

Financial receivables were unbilled receivables, and were neither past due nor impaired. Financial receivables were mainly due from governmental authorities in Mainland China, as grantors in respect of the Group's service concession arrangements. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

At 30 June 2019, the Group's financial receivables with a carrying value of RMB5,073,372,000 (31 December 2018: RMB5,157,007,000) were pledged to secure certain bank and other borrowings granted to the Group.

11. TRADE AND BILLS RECEIVABLES

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

An ageing analysis of the Group's trade and bills receivables, based on the invoice date or billing date and net of provision for impairment of trade receivables, at the end of the reporting period is as follows:

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 3 months	**379,404**	330,454
4 to 6 months	**168,656**	227,463
7 to 12 months	**248,045**	173,287
Over 12 months	**588,968**	564,795
	1,385,073	1,295,999

12. TRADE AND BILLS PAYABLES

Trade and bills payables are non-interest-bearing. The credit periods granted by each individual supplier are on a case-by-case basis and set out in the supplier contracts. An ageing analysis of the Group's trade and bills payables at the end of each reporting period is as follows:

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 3 months	**541,346**	564,125
4 months to 6 months	**423,838**	341,914
7 months to 12 months	**146,423**	280,956
Over 12 months	**527,351**	451,270
	1,638,958	1,638,265

13. DIVIDEND

The board of directors does not recommend payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Emphasis from the central government of the PRC on environmental protection has been increasing in recent years, with many supportive policies released. The effect of the national industrial policies as well as the scale of environmental protection investment is enormous. The imposition and payment of corporate pollution taxes have become more stringent and systematic after the official implementation of the Environmental Protection Tax Law of the PRC in 2018 and the introduction of a series of measures and policies regarding the imposition and payment of corporate pollution taxes. In July 2018, the PRC issued a string of documents including the Action Plan for Prevention and Control of Water Pollution (《水污染防治行動計劃》) and the Opinion on Innovating and Improving the Pricing System for the Promotion of Green Development (《關於創新和完善促進綠色發展價格機制的意見》), in which further amendments to the wastewater treatment charging policy were made, including the establishment of a dynamic adjustment system for wastewater treatment, the setting-up of a pricing mechanism in line with the standard of wastewater treatment and other detailed measures such as expediting the mechanism development covering the algorithm for costs and reasonable profits in relation to wastewater treatment and sludge disposal and that for marketization of wastewater treatment service. The wastewater treatment industry continuously benefits from the above policies and measures.

DEVELOPMENT STRATEGY AND FUTURE DEVELOPMENT

Environmental protection is a basic national policy of China, and the constantly upgrading standard for wastewater discharge provides significant business opportunities for the urban wastewater treatment industry. The Group will continue to focus on the development of its principal business of wastewater treatment. With more than 20 years of professional experience in the wastewater treatment industry, we shall adopt an extensional growth strategy of steady operation, risk control and prudent expansion, while exploring potential on existing projects by maintaining the endogenous growth and further improving the profitability of the existing projects and the operating cash flow of the Group through upgrading and expansion and so forth.

The Group will seek more efficient financing channels to enrich our capital, reduce our debt ratio, expand financing channels, reduce financing costs and improve debt structure.

We shall continue to improve our operational efficiency and reduce our operating costs and management expenses by optimizing the management structure and implementing flattened management hierarchy, thereby reinforcing the profitability of the Group.

At the same time, the Group will revitalize inefficient assets, including disposal of shareholding equity, fixed assets and other receivables.

The Group persists in promoting innovation on internal management, optimizing our remuneration structure and increasing the proportion of performance-based compensation, in order to sufficiently spur the self-motivation of our staff from all the levels for their jobs. Talent training programmes will also be maintained with strict assessment systems so as to constantly enhance our advantages in terms of acquiring competitive talents.

Meanwhile, we shall actively establish strategic partnerships with upstream and downstream enterprises for synergy to form complementary advantages and expand customer networks. Concurrently, the Group will also continue to expand both upstream and downstream along the water industrial chain and engage in businesses such as sludge disposal, operation and construction of drainage facilities, recycling of reclaimed water and treatment of industrial wastewater, aiming at the opportunities for competitive projects among them.

BUSINESS REVIEW

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

During the Reporting Period, our principal business activities remained focusing on the Urban Water Treatment, followed by the Water Environment Comprehensive Remediation and the Rural Water Improvement.

The scope of Urban Water Treatment includes constructions and operations in Urban Water Treatment projects, reclaimed water treatment and usage, sludge disposal, water distribution, O&M (operation and maintenance of a water or wastewater treatment facility), etc. The Group's business has covered the overall industry chain in Urban Water Treatment industry by executing contracts of BOT, TOT, Public-Private-Partnership (the "PPP"), Build-Own-Operate (the "BOO"), Engineering, Procurement and Construction (the "EPC") and O&M.

The scope of Water Environment Comprehensive Remediation includes river harnessing and improvement, foul water body remediation, sponge city construction, pipeline network projects, urban comprehensive pipe tunnel, etc. The Group engages in Water Environment Comprehensive Remediation by executing previously signed contracts of PPP and EPC.

The scope of Rural Water Improvement includes the construction and operation related to "the Construction of Beautiful Village", such as wastewater treatment, pipeline for collecting wastewater, rural living environment improvement, etc. The Group started to carry out this business in 2016 by executing the contracts of PPP.

In the future, the Group will continuously focus on the business of Urban Water Treatment to get steady cash flows for pursuing more high-quality market opportunities by investing in new projects. The Group is very confident about the Group's prospects and future profitability and will dedicate more efforts to enhancing the profitability and effectiveness of the Group.

1.1 Urban Water Treatment

As at 30 June 2019, the Group had entered into a total of 108 service concession arrangements projects, including 100 wastewater treatment plants, 3 water distribution plants, 3 sludge treatment plants and 2 reclaimed water treatment plant. The Group will further expand its Urban Water Treatment chain in the future, in order to improve its profitability and competitiveness.

Analysis of the Group's projects on hand as at 30 June 2019 is as follows:

	Daily wastewater treatment capacity	**Daily water distribution capacity**	**Daily reclaimed water treatment capacity**	**Daily sludge treatment capacity**	**Total**
(Tonnes)					
In operation	3,191,500	–	40,000	550	3,232,050
Not yet start operation/ Not yet transferred	775,000	211,300	25,000	–	1,011,300
Total	3,966,500	211,300	65,000	550	4,243,350
(Number of projects)					
In operation	83	–	1	3	87
Not yet start operation/ Not yet transferred	17	3	1	–	21
Total	100	3	2	3	108

	Number of projects	Treatment capacity *(Tonnes/Day)*	Actual processing volume during the six-month period ended 30 June 2019 *(Million Tonnes)*
Wastewater treatment services			
Shandong	42	1,179,500	157.5
Henan	22	1,030,000	160.8
Heilongjiang	6	425,000	55.7
Zhejiang	2	250,000	43.5
Guangdong	4	220,000	7.2
Anhui	3	175,000	21.4
Shanxi	1	150,000	–
Jiangsu	6	102,000	14.0
Other provinces/municipalities*	14	435,000	33.6
	100	3,966,500	493.7
Water distribution services	3	211,300	–
Reclaimed water treatment services	2	65,000	2.7
Total	105	4,242,800	496.4
Sludge treatment services	3	550	–
Total	108	4,243,350	496.4

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

1.1.1 Operation Services

As at 30 June 2019, the Group had 83 wastewater treatment projects, 1 reclaimed water treatment project, and 3 sludge treatment projects in operation in Mainland China. Total daily treatment capacity of wastewater treatment plants, reclaimed water treatment plant, and sludge treatment plants in operation for the six-month period ended 30 June 2019 reached 3,191,500 tonnes (year ended 31 December 2018: 3,116,500 tonnes), 40,000 tonnes (year ended 31 December 2018: 40,000 tonnes), and 550 tonnes (year ended 31 December 2018: 400 tonnes), respectively. For the six-month period ended 30 June 2019, the annualized utilization rate for wastewater and reclaimed water treatment plants in operation was approximately 85% (year ended 31 December 2018: 85%). The actual average water treatment tariff for the six-month period ended 30 June 2019 was approximately RMB1.46 per tonne (year ended 31 December 2018: approximately RMB1.39 per tonne). The actual aggregate processing volume for the six-month period ended 30 June 2019 was 496.4 million tonnes, basically the same with that for the same period last year (six-month period ended 30 June 2018: 496.4 million tonnes).

Total operation revenue of the Group's Urban Water Treatment services recorded for the six-month period ended 30 June 2019 was RMB433.7 million, representing an increase of approximately 7% (six-month period ended 30 June 2018: RMB404.5 million). The corresponding increase was primarily due to the commencement of operation of new water treatment projects through construction.

1.1.2 Construction Services

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

For the six-month period ended 30 June 2019, construction revenue was recognised for 27 projects, including 22 wastewater treatment plants, 2 water distribution plants, and 3 sludge treatment plants, which were mainly located in Henan, Shandong, Shanxi, Heilongjiang and Guangdong provinces in Mainland China. Total construction revenue of those projects for the six-month period ended 30 June 2019 was RMB574.4 million, representing a year-on-year increase of approximately 5% (six-month period ended 30 June 2018: RMB546.5 million). The corresponding increase was primarily due to the acceleration of the progress on execution of BOT and PPP projects. As at 30 June 2019, the total daily treatment capacity of the service concession arrangements plants, which was still in the construction stage, was 735,000 tonnes, including 530,000 tonnes of wastewater treatment plants, 180,000 tonnes of water distribution plants and 25,000 tonnes of reclaimed water treatment plant.

1.2 Water Environment Comprehensive Remediation

In the first half of 2019, the Group combined the divisions and continued to devote efforts to implementing the existing projects of Water Environment Comprehensive Remediation. As at 30 June 2019, the Group entered into 2 PPP projects and 13 EPC projects in Henan, Hainan, Jiangxi, Shandong and other provinces in Mainland China. Though the amount of signed PPP contracts reached a remarkable amount, the Group devoted efforts to lower the risk and enhance the reasonable profit. The Group will integrate the resources to secure and execute the project in the business of Water Environment Comprehensive Remediation under the contracts of EPC and O&M.

The Group had 13 Water Environment Comprehensive Remediation projects under construction during the six-month period ended 30 June 2019. The projects were mainly located in Henan, Hainan, Jiangxi, Shandong and other provinces in Mainland China. For the six-month period ended 30 June 2019, total revenue of those projects was RMB72.6 million, representing a year-on-year decrease of approximately 79% (six-month period ended 30 June 2018: RMB349.5 million). The corresponding decrease was primarily due to the partial completion of the Group's EPC projects.

1.3 Rural Water Improvement

In the first half of 2019, the Group implemented 3 projects of Rural Water Improvement which were located in Guangdong and Guizhou provinces. For the six-month period ended 30 June 2019, total revenue of those projects was RMB32.9 million, representing a year-on-year decrease of approximately 7% (six-month period ended 30 June 2018: RMB35.2 million). The corresponding decrease was primarily because a large part of the project executed from 2016 approached completion.

FINANCIAL ANALYSIS

Revenue

For the six-month period ended 30 June 2019, the Group recorded a revenue of RMB1,412.6 million, representing a decrease of approximately 12% as compared to the previous corresponding period of RMB1,607.5 million. The decrease was mainly due to the decrease in construction revenue of RMB251.5 million, the increase in operation revenue of RMB29.2 million, and the increase in financial income of RMB27.4 million. The decrease in construction revenue was mainly due to the increase in completion of the EPC projects of Water Environment Comprehensive Remediation services. The increase in operation revenue was mainly due to the increase in commencement of operation of new BOT and upgrade projects of Urban Water Treatment. The increase in financial income was mainly due to the increase in the financial assets.

Cost of Sales

The Group's cost of sales for the six-month period ended 30 June 2019 amounted to RMB817.3 million, including construction costs of RMB527.3 million and operation costs of water treatment plants of RMB290.0 million, and representing a decrease of approximately 22% as compared to the previous corresponding period of RMB1,049.6 million. The decrease was due to the decrease in construction costs. The decrease in construction costs was mainly due to the increase in completion of the EPC projects of Water Environment Comprehensive Remediation services.

Gross Profit Margin

For the six-month period ended 30 June 2019, gross profit margin was approximately 42%, representing an increase of 7 percentage points as compared to the previous corresponding period of approximately 35%. The increase was mainly due to the higher construction margin recognized when the EPC projects finished and the increase in the proportion of financial income.

Other Income and Gains

The Group recorded other income and gains of RMB68.2 million for the six-month period ended 30 June 2019, representing a decrease of approximately 22% as compared to the previous corresponding period of RMB87.5 million. The amount for the Reporting Period primarily included government grants of RMB21.5 million, which mainly comprised of VAT refund under "Notice on the Issuing of the Catalogue of Value-Added Tax Preferences for Products and Labor Services Involving the Comprehensive Utilization of Resources (CaiShui [2015] No. 78)" (關於印發《資源綜合利用產品和勞務增值稅優惠目錄》的通知)(財稅[2015] 78號文)) and grants for environmental protection, bank interest income of RMB2.7 million, interest income of RMB11.5 million from loans to third parties, interest income of RMB3.6 million from loans to an associate and joint ventures, gains on disposal of a subsidiary of RMB1.6 million, dividend income of RMB9.1 million and other investment income of RMB17.4 million.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the six-month period ended 30 June 2019 was RMB3.4million, representing a climb decrease of approximately 56% as compared to RMB7.8 million of the previous corresponding period, which was a result of stringent management and cost control.

Administrative Expenses

Administrative expenses for the six-month period ended 30 June 2019 was RMB120.3 million, representing a decrease of approximately 16% as compared to the previous corresponding period of RMB143.0 million. The decrease was mainly due to the decrease in staff costs and traveling and entertainment expenses which was caused by the stringent management and cost control.

Finance Costs

Finance costs for the six-month period ended 30 June 2019 of RMB273.7 million mainly comprised of interests on interest-bearing bank and other borrowings and corporate bonds, representing an increase of approximately 22% as compared to RMB224.0 million in the previous corresponding period. The increase in finance costs was mainly due to the increase of average interest-bearing bank and other borrowings and corporate bonds, and higher interest rate on interest-bearing bank and other borrowings obtained in the second half of last year. The average balance of interest-bearing bank and other borrowings and corporate bonds increased by RMB490.2 million and the average interest rate was 6.00%, representing an increase of 0.81 percentage points as compared to that in the previous corresponding period. Due to the rapid increase in finance costs, the Group will seek practical way to optimize loan structure, expand financing channels and methods and lower the average interest rate in the coming year.

Share of Profits and Losses of Associates

Share of losses of associates for the six-month period ended 30 June 2019 was RMB4.0 million, representing a slight increase as compared to share of losses of associates of RMB3.6 million in the previous corresponding period.

Income Tax Expense

Income tax expense for the six-month period ended 30 June 2019 included the current PRC income tax of RMB30.2 million and deferred tax expenses of RMB41.8 million, which were RMB35.4 million and RMB32.4 million for the previous corresponding period, respectively. The Group's effective tax rate for the six-month period ended 30 June 2019 was approximately 28%, representing a slight increase as compared with 27% for the last corresponding period.

Financial Receivables

	As at	
	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
Receivables for service concession arrangements	**7,957,122**	7,831,580
Portion classified as current	**1,471,544**	1,400,911
Non-current portion	**6,485,578**	6,430,669

As at 30 June 2019, the Group's financial receivables of RMB7,957.1 million (31 December 2018: RMB7,831.6 million) increased by RMB125.5 million, which was mainly due to the increase in financial receivables which were reclassified from contract assets once the construction and upgrade period is ended for the water treatment projects .

Contract Assets

	As at	
	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
Contract assets	**3,007,302**	2,491,404
Portion classified as current	**328,712**	209,474
Non-current portion	**2,678,590**	2,281,930

As at 30 June 2019, the Group's contract assets of RMB3,007.3 million (31 December 2018: RMB2,491.4 million) increased by RMB515.9 million, mainly arising from the increase in construction of the Group's projects under BOT, PPP, and EPC contracts.

Trade and Bills Receivables

As at 30 June 2019, the Group's trade and bills receivables of RMB1,385.1 million (31 December 2018: RMB1,296.0 million) mainly arose from the provision of wastewater treatment and sludge treatment services for Urban Water Treatment projects as well as construction services for the Group's Water Environment Comprehensive Remediation projects. The balance increased by RMB89.1 million, mainly due to (i) the increase of Urban Water Treatment projects receivables of approximately RMB170.7 million, and (ii) the net decrease of Water Environment Comprehensive Remediation projects receivables of approximately RMB82.2 million, which included EPC project receivables of approximately RMB40.6 million arising from the progress billing and cash collected from EPC and BT projects of approximately RMB122.8 million.

Prepayments, Other Receivables and Other Assets

As at 30 June 2019, the Group's prepayments, other receivables and other assets of RMB944.9 million (31 December 2018: RMB1,046.4 million) decreased by RMB101.5 million, mainly arising from the decrease in prepayments of approximately RMB25.0 million related to wastewater treatment plants construction, the decrease in other operational receivables and accrued interests of approximately RMB106.2 million, and increase from deductible input VAT of approximately RMB30.6 million.

Cash and Cash Equivalents

As at 30 June 2019, the Group's cash and cash equivalents of RMB150.4 million (31 December 2018: RMB976.2 million) decreased by RMB825.8 million as compared with that as at the end of previous period. The decrease was due to the increase in cash outflows in financing activities of the Group.

	For the six-month period ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Net cash flows used in operating activities[1]	**(159,179)**	(121,377)
Net cash flows used in investing activities	**(127,668)**	(972,093)
Net cash flows (used in)/from financing activities	**(539,051)**	178,517
Net decrease in cash and cash equivalents	**(825,898)**	(914,953)
Effect of foreign exchange rate changes	**3**	(447)
Cash and cash equivalents at beginning of the period	**976,246**	1,689,633
Cash and cash equivalents at end of the period	**150,351**	774,233

Note:

(1) For the six-month period ended 30 June2019 and 2018, the Group invested RMB376.1 million and RMB413.3 million, respectively, in the Group's BOT, TOT and PPP projects. Such investments were accounted for as cash flows used in operating activities. Under the relevant accounting treatment, part of such cash outflows used in operating activities was used to form the non-current portion of financial receivables and contract assets in the Group's interim condensed consolidated statement of financial position. For the six-month period ended 30 June 2019 and 2018, the Group would have incurred cash inflows of RMB216.9 million and RMB291.9 million, respectively, if the Group's investments in BOT, TOT and PPP activities were not accounted for as cash flows used in operating activities.

Trade and Bills Payables

As at 30 June 2019, the Group's trade and bills payables of RMB1,639.0 million (31 December 2018: RMB1,638.3 million) increased by RMB0.7 million, which was in line with the increase of the Group's construction work carried out and the settlements.

Other Payables and Accruals

As at 30 June 2019, the Group's other payables and accruals of RMB430.1 million (31 December 2018: RMB507.0 million) decreased by RMB76.9 million, which was mainly due to the decrease in payables for acquisitions and the decrease by the repayment of borrowings from non-controlling shareholders.

Liquidity and Financial Resources

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

As at 30 June 2019, the carrying amount of the Group's cash and cash equivalents was RMB150.4 million, representing a decrease of approximately RMB825.8 million as compared to RMB976.2 million as at 31 December 2018, which was mainly due to the net cash outflows in financing activities of RMB539.1 million, settlements of acquisition and investing payables of RMB52.8 million and cash outflows of RMB87.6 million for purchases of property, plant and equipment and intangible assets from investing activities, cash outflows of RMB44.7 million for addition of pledged deposits, repurchase of other non-current financial assets of RMB49.7 million, decrease in loans to a joint venture of RMB6.0 million from investing activities, cash inflows of RMB1.9 million for disposal of a subsidiary from investing activities, and the net cash outflows of RMB159.2 million from operating activities.

The Group's total interest-bearing bank and other borrowings amounted to RMB7,537.3 million as at 30 June 2019 (31 December 2018: RMB7,096.0 million), including lease liabilities of RMB5.0 million arising from the application of new lease standard under IFRS 16 — Leases as at 1 January 2019, over 78% of interest-bearing bank and other borrowings bear interest at floating rates.

The Group's total corporate bonds amounted to RMB1,478.5 million as at 30 June 2019 (31 December 2018: RMB2,140.5 million), which comprised of corporate bonds issued on 18 December 2015 and 13 June 2018, with an aggregate amount of RMB900.0 million and RMB300.0 million respectively, and asset backed securities (the "ABS") issued on 10 August 2018 with net cash amount of RMB319.0 million. All the corporate bonds and ABS bear interest at fixed rates.

As at 30 June 2019, the Group had banking facilities amounting to RMB57,711.3 million, of which RMB49,238.8 million have not been utilised. Of the unutilised banking facilities as at that date, RMB50.0 million were unrestricted facilities and the remaining RMB49,188.8 million were restricted facilities, of which RMB48,988.8 million were mainly limited to be utilized on environmental protection infrastructure and comprehensive management, and RMB200.0 million were mainly limited to be utilized for supplement of current loans to the Group .

As at 30 June 2019, the gearing ratio of the Group (calculated by net debt divided by capital and net debt) was 71%, while the gearing ratio was 70% as at 31 December 2018.

EMPLOYEES AND REMUNERATION POLICIES

The Group had 2,172 employees as at 30 June 2019. The remuneration package of the Group is generally determined with reference to market conditions and individual performance. Salaries are normally reviewed annually based on performance appraisals and other relevant factors. The Group provides external and internal training programs to its employees.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

The Company has adopted the code provisions included in the corporate governance code (the "Corporate Governance Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Board is of the view that during the six months ended 30 June 2019, the Company has complied with the Corporate Governance Code and there has been no deviation from the code provisions as set forth under the Corporate Governance Code.

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

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

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

INTERIM DIVIDEND

The Board did not recommend the payment of interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to 30 June 2019.

AUDIT COMMITTEE AND REVIEW OF THE INTERIM RESULTS

The Company has established the Audit Committee pursuant to a resolution of the Directors passed on 30 October 2013 in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code. The primary duties of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems, oversee the audit process and perform other duties and responsibilities as assigned by the Board. At present, the Audit Committee consists of three independent non-executive Directors, being Mr. Chau Kam Wing (appointed on 4 April 2019), Mr. Chang Qing, and Mr. Peng Yongzhen, and Mr. Chau Kam Wing is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2019. The Audit Committee has also discussed matters with respect to the accounting policies, the practices adopted by the Company and the internal control with senior management members of the Company.

The unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2019 has also been reviewed by the Company's auditor, Ernst & Young, in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by International Auditing and Assurance Standards Board.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as a code of conduct regarding the Directors' dealings in the Company's securities.

The Company has made specific enquiry to all of the Directors and all of the Directors have confirmed that they have complied with the required standards as set out in the Model Code during the six months ended 30 June 2019.

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement has been published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.kangdaep.com. The interim report of the Group for the six months ended 30 June 2019 will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to the Company's shareholders in due course.

By order of the Board
Kangda International Environmental Company Limited
Co-Chairman
Mr. Zhao Juanxian (alias, Zhao Junxian)

Hong Kong, 30 August 2019

As at the date of this announcement, the Board comprises 7 Directors, namely Mr. ZHAO Juanxian (alias, ZHAO Junxian), Mr. LI Zhong, Ms. LIU Yu Jie and Mr. Duan, Jerry Linnan as executive Directors; and Mr. CHAU Kam Wing, Mr. CHANG Qing and Mr. PENG Yongzhen as independent non-executive Directors.