KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED
康達國際環保有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 6136)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

HIGHLIGHTS

- Revenue was approximately RMB3,021.3 million, representing an increase of approximately 20% as compared with that of last year.
- Profit attributable to owners of the parent was approximately RMB303.4 million, representing a decrease of approximately 27% as compared with that of last year.
- Basic and diluted earnings per share attributable to ordinary equity holders of the parent for the year was RMB14.84 cents.
- As at 31 December 2018, total daily treatment capacity was 4,268,350 tonnes, representing an increase of approximately 4% as compared with that of 4,113,350 tonnes as at 31 December 2017.
- The Board did not recommend payment of the final dividend for the year ended 31 December 2018.

The board (the "Board") of directors (the "Directors") of Kangda International Environmental Company Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively as the "Group") for the year ended 31 December 2018 together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	3	**3,021,327**	2,523,940
Cost of sales		**(1,928,142)**	(1,570,619)
Gross profit		**1,093,185**	953,321
Other income and gains	4	**218,520**	190,667
Selling and distribution expenses		**(14,229)**	(11,950)
Administrative expenses		**(284,508)**	(278,898)
Other expenses		**(50,809)**	(7,786)
Finance costs	5	**(498,570)**	(354,880)
Share of profits and losses of:			
Associates		**(5,595)**	43,730
Joint ventures		**(2,303)**	2,592
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	**455,691**	536,796
Income tax expense	7	**(145,801)**	(109,187)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**309,890**	427,609
PROFIT FOR THE YEAR		**309,890**	427,609
Attributable to:			
Owners of the parent	8	**303,350**	414,448
Non-controlling interests		**6,540**	13,161
		309,890	427,609
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic for profit for the year (expressed in RMB per share)	8	**14.84 cents**	20.05 cents
Diluted for profit for the year		**N/A**	N/A

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)
Year ended 31 December 2018

	Notes	**2018** **RMB'000**	2017 RMB'000
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Available-for-sale financial investments:			
Changes in fair value		**–**	117,000
Income tax effect		**–**	(17,550)
		–	99,450
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		**(132,000)**	–
Income tax effect		**19,800**	–
		(112,200)	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**197,690**	527,059
Attributable to:			
Owners of the parent		**191,150**	513,898
Non-controlling interests		**6,540**	13,161
		197,690	527,059

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**143,167**	152,209
Investment properties		**10,524**	11,226
Investments in associates		**221,843**	228,908
Investments in joint ventures		**140,403**	128,572
Available-for-sale financial investments		**–**	621,000
Equity investments designated at fair value through other comprehensive income		**489,000**	–
Service concession intangible assets		**737,174**	914,503
Other intangible assets		**3,554**	3,737
Goodwill		**60,219**	60,219
Financial receivables	*9*	**6,430,669**	7,676,867
Deferred tax assets		**90,383**	81,652
Prepayments, other receivables and other assets		**427,855**	393,254
Contract assets	*10*	**2,281,930**	–
Other non-current financial assets		**793,030**	–
Total non-current assets		**11,829,751**	10,272,147
CURRENT ASSETS			
Inventories		**14,556**	11,659
Construction contracts		**–**	80,485
Contract assets	*10*	**209,474**	–
Financial receivables	*9*	**1,400,911**	1,410,155
Trade and bills receivables	*11*	**1,295,999**	1,146,070
Prepayments, other receivables and other assets		**618,563**	430,590
Pledged deposits		**179,727**	194,855
Cash and cash equivalents		**976,246**	1,689,633
Total current assets		**4,695,476**	4,963,447
CURRENT LIABILITIES			
Trade and bills payables	*12*	**1,628,869**	1,287,658
Other payables and accruals		**506,968**	514,524
Deferred income		**19,650**	25,450
Interest-bearing bank and other borrowings	*13*	**3,011,743**	2,805,827
Corporate bonds	*14*	**671,394**	1,100,000
Tax payable		**28,807**	40,397
Total current liabilities		**5,867,431**	5,773,856

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NET CURRENT LIABILITIES		**(1,171,955)**	(810,409)
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,657,796**	9,461,738
NON-CURRENT LIABILITIES			
Trade payables	*12*	**9,396**	2,851
Interest-bearing bank and other borrowings	*13*	**4,084,177**	3,589,235
Corporate bonds	*14*	**1,469,105**	948,841
Deferred income		**10,333**	9,317
Deferred tax liabilities		**763,112**	704,633
Total non-current liabilities		**6,336,123**	5,254,877
Net assets		**4,321,673**	4,206,861
EQUITY			
Equity attributable to owners of the parent			
Share capital		**16,143**	16,392
Reserves		**4,098,510**	3,986,922
		4,114,653	4,003,314
Non-controlling interests		**207,020**	203,547
Total equity		**4,321,673**	4,206,861

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.1 BASIS OF PREPARATION

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

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

Going concern

As at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately RMB1,171,955,000 (31 December 2017: net current liabilities: RMB810,409,000). In addition, the Group has contracted capital commitments of RMB303,306,000 and commitments in respect of service concession arrangements of RMB3,218,966,000. Part of such commitments is expected to be due in the foreseeable future. The directors of the Company have considered the Group's available sources of funds as at the date of approval of these consolidated financial statements, which are as follows:

- Unutilised banking facilities available to the Group that the directors of the Company are confident of them being able to be continuously renewed upon their respective expirations in the foreseeable future based on the Group's past experience and good credit standing;

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

- Cash inflows arising from the Group's activities subsequent to 31 December 2018; and

- Other available sources of financing from banks, financial institutions and other institutions given the Group's credit history.

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 31 December 2019. Hence the directors of the Company are of the opinion that it is appropriate to prepare these consolidated financial statements under the going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

1.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

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

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

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

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

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

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's consolidated financial statements.

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
Annual Improvements 2014–2016 Cycle	Amendments to IFRS 1 and IAS 28

Except for the amendments to IFRS 4 and Annual Improvements to IFRSs 2014–2016 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all aspects of the accounting for financial instruments: classification and measurement, and impairment.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 9 Financial Instruments (continued)

(a) Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 measurement				IFRS 9 measurement	
		Category	Amount	Reclassification	ECL	Amount	Category
	Notes		*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	
Financial assets							
Equity investments designated at fair value through other comprehensive income		N/A	–	621,000	–	621,000	FVOCI[1] (equity)
From: Available-for-sale financial investments	*(i)*		–	621,000	–	–	
Available-for-sale financial investments		AFS[2]	621,000	(621,000)	–	–	N/A
To: Equity investments designated at fair value through other comprehensive income	*(i)*		–	(621,000)	–	–	
Trade and bills receivables		L&R[3]	1,146,070	–	(3,076)	1,142,994	AC[4]
Financial assets included in prepayments, other receivables and other assets		L&R	556,011	–	(7,497)	548,514	AC
Financial receivables	*(ii)*		7,816,234	–	–	7,816,234	
Pledged deposits		L&R	194,855	–	–	194,855	AC
Cash and cash equivalents		L&R	1,689,633	–	–	1,689,633	AC
			12,023,803	–	(10,573)	12,013,230	
Other assets							
Service concession intangible assets	*(ii)*		679,785	–	–	679,785	
Contract assets	*(ii)*		1,585,991	–	–	1,585,991	
Deferred tax assets			81,652	–	2,184	83,836	
			2,347,428	–	2,184	2,349,612	
Total assets			14,371,231	–	(8,389)	14,362,842	
Financial liabilities							
Trade and bills payables		AC	1,290,509	–	–	1,290,509	AC
Financial liabilities included in other payables and accruals		AC	442,441	–	–	442,441	AC
Corporate bonds		AC	2,048,841	–	–	2,048,841	AC
Interest-bearing bank and other borrowings		AC	6,395,062	–	–	6,395,062	AC
			10,176,853	–	–	10,176,853	
Other liabilities							
Deferred tax liabilities			704,633	–	–	704,633	
Total liabilities			10,881,486	–	–	10,881,486	

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 9 Financial Instruments (continued)

(a) Classification and measurement **(continued)**

[1] FVOCI: Financial assets at fair value through other comprehensive income
[2] AFS: Available-for-sale Financial investments
[3] L&R: Loans and receivables
[4] AC: Financial assets or financial liabilities at amortised cost

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale financial investments as equity investments at fair value through other comprehensive income.

(ii) The gross carrying amounts of the financial receivables, service concession intangible assets, the contract assets and the contract liabilities under the column "IAS 39 measurement — Amount" represent the amounts after adjustments for the adoption of IFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of IFRS 15 are included in IFRS 15 *Revenue from Contracts with Customers*.

(b) Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9. Further details are disclosed in notes 11 to the financial statements.

	Impairment allowances under IAS 39 at 31 December 2017	**Re-measurement**	**ECL allowances under IFRS 9 at 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	–	3,076	3,076
Financial assets included in prepayments, other receivables and other assets	–	7,497	7,497
	–	10,573	10,573

(c) Impact on reserves and retained profits

The impact of transition to IFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits
	RMB'000
Retained profits	
Balance as at 31 December 2017 under IAS 39	1,739,344
Recognition of expected credit losses for trade receivables under IFRS 9	(3,076)
Recognition of expected credit losses for financial assets included in prepayments, other receivables and other assets under IFRS 9	(7,497)
Deferred tax in relation to the above	2,184
Balance as at 1 January 2018 under IFRS 9	1,730,955

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 and its amendments replace IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3 and 4 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of IFRS 15:

	Notes	31 December 2017 (Audited) *RMB'000*	Reclassifications under IFRS 15 *RMB'000*	**1 January 2018 (As restated)** ***RMB'000***
Non-current assets				
Service concession intangible assets	*(a)*	914,503	(234,718)	**679,785**
Financial receivables	*(a)*	7,676,867	(1,257,193)	**6,419,674**
Contract assets	*(a)*	–	1,491,911	**1,491,911**
Current assets				
Financial receivables	*(a)*	1,410,155	(13,595)	**1,396,560**
Construction contracts	*(b)*	80,485	(80,485)	**–**
Contract assets	*(a)/(b)*	–	94,080	**94,080**
Current liabilities				
Other payables and accruals	*(c)*	514,524	(66,341)	**448,183**
Contract liabilities	*(c)*	–	66,341	**66,341**

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss for the year ended 31 December 2018 are described below:

(a) Service concession arrangements

The Group has entered into a number of service concession arrangements with certain governmental authorities or their designees (the "Grantors"). The service concession arrangements consist of Build-Operate-Transfer (the "BOT") arrangements and Transfer-Operate-Transfer (the "TOT") arrangements. Under the BOT arrangements, the Group carries out construction work of the waste water treatment plants (the "WTPs"), reclaimed water treatment plants (the "RWTPs"), water distribution plants (the "WDPs"), sludge treatment plants (the "STPs") or other municipal infrastructure for the Grantors and receives in return the rights to operate the service project concerned for a specified period of time (the "operation period") in accordance with the pre-established conditions set by the Grantors, the service project should be transferred to the Grantors with nil consideration at the end of the operation period. A TOT arrangement is similar to a BOT arrangement, except that the Group pays consideration for the rights to operate the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure that have been built. In prior reporting periods, the Group allocated the consideration received from the Grantors into revenue from construction and operation and interest income, in accordance with IFRIC 12 *Service Concession Arrangements*. Upon the adoption of IFRS 15, the construction revenue allocated to the construction service will be recognised over the period that the construction services are provided; the operation revenue allocated to the operation service will be recognised over the period that the operation services are provided; and the financial revenue will be recognised by applying the effective interest method to the amortised cost of financial assets over the period of the service concession arrangements.

Before the adoption of IFRS 15, the Group provides construction or upgrade services, the consideration received or receivable by the Group shall be recognised at its fair value. The consideration may be rights to financial assets or intangible assets. Upon adoption of IFRS 15, both financial assets and intangible assets of consideration are classified as contract assets during the construction or upgrade period. Accordingly, the Group reclassified RMB1,270,788,000 from financial assets to contract assets and reclassified RMB234,718,000 from Service concession intangible assets to contract assets as at 1 January 2018.

For the year ended 31 December 2018, the Group has concluded that the adoption of IFRS 15 did not have any material impact on the Group's revenue recognition.

(b) EPC arrangements

Before the adoption of IFRS 15, contract costs were recognised as an asset provided it was probable that they would be recovered. Such costs represented an amount due from the customers and were recorded as construction contracts in the statement of financial position before the construction services were billed to customers. Upon the adoption of IFRS 15, a contract asset is recognised when the Group performs by transferring goods or services to customers and the Group's right to consideration is conditional. Accordingly, the Group reclassified RMB80,485,000 from construction contracts to contract assets as at 1 January 2018.

(c) Consideration received from customers in advance

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as other payables. Under IFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB66,341,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Amendments Under Annual Improvements to IRFSs 2014–2016 Cycle

- IFRS 1 First-time Adoption of International Financial Reporting Standards: Deletes the short-term exemptions for first-time adopters because the reliefs provided in the exemptions are no longer applicable. The amendments are not applicable to the Group's financial statements.

- IAS 28 Investments in Associates and Joint Ventures: Clarifies that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries when applying the equity method. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (i) the investment entity associate or joint venture is initially recognised; (ii) the associate or joint venture becomes an investment entity; and (iii) the investment entity associate or joint venture first becomes a parent. The amendments did not have any impact on the Group's financial statements.

2. 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 operation and maintenance of waste water treatment facilities entrusted by governments ("O&M");

(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 construction of 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, equity investments designated at fair value through other comprehensive income, other non-current financial assets, unallocated intangible assets, unallocated deferred tax assets, unallocated prepayments, other receivables and other assets, pledged deposits, unallocated cash and cash equivalents, unallocated trade and bills receivables and other unallocated head office and corporate assets as these assets are managed on a group basis.

2. OPERATING SEGMENT INFORMATION (continued)

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.

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

Year ended 31 December 2018	**Urban Water Treatment** *RMB'000*	**Water Environment Comprehensive Remediation** *RMB'000*	**Rural Water Improvement** *RMB'000*	**Total** *RMB'000*
Segment revenue				
Sales to external customers	**2,462,391**	**457,330**	**101,606**	**3,021,327**
	2,462,391	**457,330**	**101,606**	**3,021,327**
Segment results	**639,419**	**66,969**	**18,254**	**724,642**
Reconciliation:				
Unallocated income and gains				**81,759**
Share of profit and loss of unallocated associates				**(9,076)**
Share of profit and loss of unallocated joint ventures				**(370)**
Corporate and other unallocated expenses				**(95,442)**
Unallocated finance costs				**(245,822)**
Profit before tax				**455,691**
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**

2. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2018	Urban Water Treatment *RMB'000*	Water Environment Comprehensive Remediation *RMB'000*	Rural Water Improvement *RMB'000*	Total *RMB'000*
Other segment information				
Investments in associates	**–**	**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**
Share of profit and loss of associates	**2,818**	**663**	**–**	**3,481**
Share of profit and loss of unallocated associates				**(9,076)**
Losses on disposal of an associate	**(8,154)**	**–**	**–**	**(8,154)**
Share of profit and loss of joint ventures	**(4,940)**	**3,007**	**–**	**(1,933)**
Share of profit and loss of unallocated joint ventures				**(370)**
Depreciation and amortisation	**48,629**	**124**	**–**	**48,753**
Unallocated depreciation and amortisation				**4,968**
Total depreciation and amortisation				**53,721**
Capital expenditure	**135,983**	**55**	**101,605**	**237,643**
Unallocated amounts				**491**
Total capital expenditure*				**238,134**

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

2. **OPERATING SEGMENT INFORMATION (continued)**

Year ended 31 December 2017	Urban Water Treatment *RMB'000*	Water Environment Comprehensive Remediation *RMB'000*	Rural Water Improvement *RMB'000*	Total *RMB'000*
Segment revenue				
Sales to external customers	2,064,436	390,855	68,649	2,523,940
	2,064,436	390,855	68,649	2,523,940
Segment results	694,658	59,894	12,141	766,694
Reconciliation:				
Unallocated income and gains				44,423
Share of profit and loss of unallocated associates				39,510
Corporate and other unallocated expenses				(100,864)
Unallocated finance costs				(212,967)
Profit before tax				536,796
Segment assets	11,485,114	1,209,851	352,117	13,047,082
Reconciliation:				
Corporate and other unallocated assets				2,188,512
Total assets				15,235,594
Segment liabilities	8,063,003	477,881	347,370	8,888,254
Reconciliation:				
Corporate and other unallocated liabilities				2,140,479
Total liabilities				11,028,733
Other segment information				
Investments in associates	95,636	103,261	–	198,897
Unallocated investments in associates				30,011
Investments in joint ventures	81,424	47,148	–	128,572
Share of profit and loss of associates	3,196	1,024	–	4,220
Share of profit and loss of unallocated associates				39,510
Share of profit and loss of joint ventures	3,129	(537)	–	2,592
Depreciation and amortisation	22,693	–	–	22,693
Unallocated depreciation and amortisation				3,508
Total depreciation and amortisation				26,201
Capital expenditure	83,571	563	68,649	152,783
Unallocated amounts				4,798
Total capital expenditure*				157,581

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

2. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2018	2017
	RMB'000	*RMB'000*
Mainland China	**3,021,327**	2,523,940

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

(b) Non-current assets

	2018	2017
	RMB'000	*RMB'000*
Mainland China	**11,739,368**	10,190,495

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

Information about major customers

During the year, the revenue derived from the Group's two largest customers is as follows:

Year ended 31 December 2018

	Urban Water Treatment	**Total**
	RMB'000	***RMB'000***
Customer A	**255,950**	**255,950**
Customer C	**238,796**	**238,796**
	494,746	**494,746**

Year ended 31 December 2017

	Urban Water Treatment	Total
	RMB'000	*RMB'000*
Customer A	256,278	256,278
Customer B	192,998	192,998
	449,276	449,276

3. REVENUE

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

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

The Group also carries out construction works of municipal infrastructure or infrastructure related to WTPs under Build-Transfer (the "BT") arrangements for certain BT customers and agrees with these BT customers to enter into a repurchase agreement for the construction work for periods ranging from three to four years.

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

Revenue from contracts with customers

	2018	2017
	RMB'000	*RMB'000*
Revenue from construction services	**1,654,185**	1,355,980
Revenue from operating services	**819,684**	695,044
Financial income	**547,458**	472,916
	3,021,327	2,523,940

4. OTHER INCOME AND GAINS

	2018	2017
	RMB'000	*RMB'000*
Government grants *(note (a))*	**119,365**	124,351
Interest income from loans to third parties	**40,302**	21,893
Gain on disposal of subsidiaries	**23,192**	–
Dividend income from equity investments at fair value through other comprehensive income	**14,325**	–
Bank interest income	**7,517**	11,199
Interest income from loans to an associate and joint ventures	**5,970**	–
Investment income from debt investments at fair value through profit or loss	**4,841**	–
Rental income less depreciation of investment properties	**510**	533
Investment income from reclassification from an investment in an associate to available-for-sale financial investments	**–**	7,398
Foreign exchange differences	**–**	22,213
Investment income from available-for-sale financial investments	**–**	1,274
Others	**2,498**	1,806
	218,520	190,667

Note:

(a) Government grants primarily represented the value-added tax refund and the environmental protection funds for environmental technological improvements granted by government authorities. There are no unfulfilled conditions or contingencies relating to these grants.

5. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interest-bearing bank and other borrowings	**364,893**	276,024
Interest on corporate bonds	**133,677**	78,856
	498,570	354,880

6. PROFIT BEFORE TAX

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

	Notes	**2018** *RMB'000*	2017 *RMB'000*
Cost for construction services		**1,402,595**	1,174,665
Cost for operation services		**525,547**	395,954
Total cost of services		**1,928,142**	1,570,619
Depreciation of property, plant and equipment		**11,619**	9,258
Amortisation of service concession intangible assets		**41,090**	16,444
Amortisation of other intangible assets		**310**	241
Loss allowance for impairment of trade receivables	*11*	**22,902**	4,341
Loss allowance for impairment of other receivables		**31**	–
Minimum lease payments under operating leases for buildings		**7,235**	6,977
Auditor's remuneration		**3,000**	3,000
Employee benefit expense (including directors' remuneration):			
Wages, salaries and allowances, social securities and benefits		**238,455**	187,363
Pension scheme contributions (defined contribution scheme)		**25,374**	20,774
Equity-settled share option expenses		**–**	7,115
Total employee benefit expense		**263,829**	215,252
Operating lease income		**(1,212)**	(791)
Less: Depreciation of investment properties		**702**	258
Rental income less depreciation of investment properties	*4*	**(510)**	(533)
Bank interest income	*4*	**(7,517)**	(11,199)
Government grants	*4*	**(119,365)**	(124,351)
Interest income from loans to third parties	*4*	**(40,302)**	(21,893)
Interest income from loans to an associate and joint ventures	*4*	**(5,970)**	–
Investment income from available-for-sale financial investments	*4*	**–**	(1,274)
Investment income from debt investments at fair value through profit or loss		**(4,841)**	–
Investment income from reclassification from an investment in an associate to available-for-sale financial investments	*4*	**–**	(7,398)
Loss on disposal of items of property, plant and equipment, net		**166**	802
Foreign exchange differences, net		**12,425**	(22,213)

7. INCOME TAX EXPENSE

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

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

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

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

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

	2018	2017
	RMB'000	*RMB'000*
Current		
— Mainland China	**73,213**	70,704
Deferred	**72,588**	38,483
Total tax charge for the year	**145,801**	109,187

7. INCOME TAX EXPENSE (continued)

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

	2018		2017	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax	**455,691**		536,796	
Tax at the statutory tax rate	**113,923**	**25.0**	134,199	25.0
Lower tax rates for specific provinces or enacted by local authority	**(26,490)**	**(5.8)**	(9,408)	(1.8)
Expenses not deductible for tax	**4,391**	**1.0**	3,714	0.7
Tax losses not recognised	**22,607**	**5.0**	4,131	0.8
Tax losses utilised from previous periods	**(1,603)**	**(0.4)**	(10,019)	(1.9)
Reversal of tax losses recognised in previous periods	**20,002**	**4.4**	–	–
Tax effect of disposal of subsidiaries	**10,997**	**2.4**	–	–
Profits and losses attributable to joint ventures and associates	**1,974**	**0.4**	(13,430)	(2.5)
Tax charge at the Group's effective rate	**145,801**	**32.0**	109,187	20.3

The share of tax attributable to associates and joint ventures amounting to RMB696,000 (2017: RMB8,228,000) is included in "Share of profits and losses of associates" and "Share of profit and loss of joint ventures" in the profit or loss.

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

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

At the end of the year, the Company had nil share options outstanding under the Share Option Scheme (2017: 28,160,000). The diluted earnings per share amount is calculated by dividing the profit for the year 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 year.

The share options that could have potentially dilutive impact on the basic earnings per share amount were issued in December 2014. No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2017 in respect of a dilution as the share options outstanding had anti-dilutive effect on the basic earnings per share amounts presented.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

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

	2018	2017
	RMB'000	*RMB'000*
Earnings:		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	**303,350**	414,448

	2018	2017
	Number of shares	*Number of shares*
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	**2,044,676,000**	2,067,506,000

9. FINANCIAL RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Receivables for service concession arrangements	**7,831,580**	9,087,022
Net financial receivables	**7,831,580**	9,087,022
Portion classified as current assets	**(1,400,911)**	(1,410,155)
Non-current portion	**6,430,669**	7,676,867

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

Financial receivables were unbilled receivables, and were neither past due nor impaired. Financial receivables were mainly due from governmental authorities in Mainland China, as the 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.

As at 31 December 2018, the Group's financial receivables with a carrying value of RMB5,157,007,000 (2017: RMB4,982,241,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 13).

10. CONTRACT ASSETS

	31 December 2018 *RMB'000*	1 January 2018 *RMB'000*	31 December 2017 *RMB'000*
Contract assets arising from:			
Construction services	**2,491,404**	1,585,991	–
	2,491,404	1,585,991	–

Contract assets are initially recognised for revenue earned from construction services as the receipt of consideration is conditional on successful completion of construction, respectively. Included in contract assets for construction services are retention receivables. Upon completion of installation or construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2018 was the result of the increase in the provision of construction services at the end of the year.

The expected timing of recovery or settlement for contract assets as at 31 December 2018 is as follows:

	RMB'000
Within one year	209,474
More than one year	2,281,930
Total contract assets	2,491,404

At 31 December 2018, the Group's contract assets with a carrying value of RMB1,109,687,000 (2017: nil) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 13).

11. TRADE AND BILLS RECEIVABLES

	2018 *RMB'000*	2017 *RMB'000*
Trade receivables	**1,298,421**	1,145,720
Bills receivable	**1,350**	350
Impairment	**(3,772)**	–
	1,295,999	1,146,070

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

11. TRADE AND BILLS RECEIVABLES (continued)

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

Included in the Group's trade receivables are amounts due from the Group's joint ventures and associates of RMB4,890,000 (2017: nil) and RMB380,863,000 (2017: RMB279,250,000), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

At 31 December 2018, the Group's trade receivables with a carrying value of RMB350,253,000 (2017: RMB205,045,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 13).

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

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**330,454**	425,496
4 to 6 months	**226,113**	175,503
7 to 12 months	**173,287**	168,573
Over 12 months	**564,795**	376,148
	1,294,649	1,145,720

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

	2018	2017
	RMB'000	*RMB'000*
At beginning of the year	**–**	–
Effect of adoption of IFRS 9	**3,076**	–
At beginning of the year (Restated)	**3,076**	–
Impairment losses	**22,902**	4,341
Amount written off as uncollectible	**(22,206)**	(4,341)
At end of the year	**3,772**	–

11. TRADE AND BILLS RECEIVABLES (continued)

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

An ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017
	RMB'000
Neither past due nor impaired	822,699
Past due but not impaired:	
Less than 3 months past due	168,411
4 to 6 months past due	45,796
Over 6 months past due	108,814
	1,145,720

Receivables that were neither past due nor impaired related to different local government authorities or agencies for whom there was no recent history of default.

Receivables that were past due but not impaired related to government authorities or agencies that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

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.

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

	2018	2017
	RMB'000	*RMB'000*
Bills payable *(note (a))*	**167,750**	192,319
TOT payables *(note (b))*	**3,985**	3,985
Trade payables	**1,466,530**	1,094,205
	1,638,265	1,290,509
Less: Non-current portion	**9,396**	2,851
Current portion	**1,628,869**	1,287,658

12. TRADE AND BILLS PAYABLES (continued)

Notes:

(a) As at 31 December 2018, the Group's bills payable were secured by the pledged deposits amounting to RMB125,119,000 (2017: RMB137,023,000).

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

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

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**564,125**	628,760
4 months to 6 months	**341,914**	218,935
7 months to 12 months	**280,956**	186,239
Over 12 months	**451,270**	256,575
	1,638,265	1,290,509

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

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018			2017		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Current						
Bank loans — unsecured	**–**	**–**	**–**	3.97–5.66	2018	500,000
Bank loans — secured	**4.35–8.00**	**2019**	**1,902,750**	3.86–5.66	2018	1,734,607
Current portion of long term other loans — secured	**5.78–9.90**	**2019**	**137,164**	–	–	–
Current portion of long term bank loans — secured	**4.75–6.56**	**2019**	**971,829**	4.41–6.37	2018	571,220
			3,011,743			2,805,827
Non-current						
Long term other loans — unsecured	**1.20**	**2026**	**30,000**	1.20	2026	30,000
Long term other loans — secured	**2.80–9.90**	**2020–2026**	**610,862**	2.80	2026	40,000
Long term bank loans — secured	**4.75–6.56**	**2020–2045**	**3,443,315**	4.41–6.37	2019–2045	3,519,235
			4,084,177			3,589,235
			7,095,920			6,395,062

13. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	2018			2017		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Interest-bearing bank and other borrowings denominated in						
— RMB			**7,021,117**			6,172,957
— Hong Kong dollars			**43,810**			104,489
— United States dollars			**30,993**			117,616
			7,095,920			6,395,062

	2018	2017
	RMB'000	*RMB'000*
Analysed into:		
Bank and other borrowings repayable:		
Within one year	**3,011,743**	2,805,827
In the second year	**864,717**	790,966
In the third to fifth years, inclusive	**1,801,130**	1,520,220
Beyond five years	**1,418,330**	1,278,049
	7,095,920	6,395,062

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

	2018	2017
	RMB'000	*RMB'000*
Property, plant and equipment	**19,102**	20,929
Financial receivables *(note 9)*	**5,157,007**	4,982,241
Trade and bills receivables *(note 11)*	**350,253**	205,045
Pledged deposits	**5,000**	23,046
Service concession intangible assets	**241,988**	329,479
Contract assets *(note 10)*	**1,109,687**	–

The Group's interest-bearing bank and other borrowings of RMB1,850,369,000 (2017: RMB515,515,000) were guaranteed by the Company's investments in certain subsidiaries.

The Group's interest-bearing bank and other borrowings of RMB1,364,477,000 (2017: RMB250,000,000) were secured by Mr. Zhao Juanxian, who is the controlling shareholder of the Company.

14. CORPORATE BONDS

A corporate bond with a principal amount of RMB300,000,000 was issued by Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd. ("Chongqing Kangda"), an indirectly wholly-owned subsidiary of the Company, to certain institutional investors on 19 April 2018 pursuant to the subscription agreement dated 11 April 2018, which is due on 15 January 2019 and bears interest at the rate of 6.5% per annum.

A corporate bond with a principal amount of RMB300,000,000 was issued by Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, to certain institutional investors on 3 September 2018 pursuant to the subscription agreement dated 27 August 2018, which is due on 2 June 2019 and bears interest at the rate of 7.0% per annum.

As at 31 December 2018, the carrying amount of the bond issued by Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, on 13 June 2018 was RMB294,385,000, with a maturity date on 13 June 2021 and an interest rate at 7.5% per annum.

As at 31 December 2018, the carrying amount of the bond issued by Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, on 18 December 2015 was RMB881,981,000, with a maturity date on 18 December 2022 and an interest rate at 7.0% per annum (raised from 5.5%).

As at 31 December 2018, the carrying amount of the bond issued by Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, on 30 June 2016 was RMB59,890,000, with a maturity date on 1 July 2019 and an interest at the rate of 5.8% per annum.

On 10 August 2018, the Group received a net cash amount of RMB319,000,000 through the issuance of asset-backed securities (the "ABS") of RMB360,000,000 in the Shanghai Stock Exchange bearing interest at the rate of 7.5% per annum. As at 31 December 2018, the carrying amount of the ABS was RMB304,243,000. The Group invested RMB30,000,000 in such ABS as a deferred ABS holder and RMB11,000,000 as a preferred ABS holder.

	2018	2017
	RMB'000	*RMB'000*
Unsecured short term corporate bonds	**671,394**	1,100,000
Unsecured long term corporate bonds	**1,469,105**	948,841
	2,140,499	2,048,841

15. EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

DEVELOPMENT STRATEGY AND FUTURE DEVELOPMENT

Environmental protection is a basic national policy of China, and the constantly upgrading standards for sewage discharge provide significant business opportunities for the sewage treatment industry. The Group will continue to focus on the development of its principal business in sewage treatment. With more than 20 years of professional experience in the wastewater treatment industry, the Group will adopt an extensional growth strategy of steady operation, risk control and prudent expansion, while it taps the potential of the existing projects in stock internally and further enhance profitability of the existing projects and improve operating cash flow of the Group through upgrading and expansion.

Focusing on the principal business of sewage treatment, the Group entered into several projects in 2018, including the Leping South Inland River Comprehensive Treatment EPC Project in Jiangxi Province, Taiyuan Fendong Wastewater Treatment Plant (Phase I) BOT Project in Shanxi Province, Jiulong Paper Industry Wastewater Comprehensive Utilization System Works BOT Project in Ninghe District of Tianjin City, and Longkou City Yongwen River Wastewater Treatment Plant BOT Project in Shandong Province.

The Group will seek more efficient financing channels to enrich capital, reduce debt ratio, cut financing costs, and improve the debt structure so as to deal with the challenges of the interest-rate-hiking-cycle.

The Group will continue to improve its operational efficiency, lower operating costs and management expenses, and thereby enhance profitability of the Group.

The Group will continuously promote innovation of internal management, optimize the salary structure, increase the proportion of performance compensation, and motivate the working enthusiasm of staffs of all levels. The Group will also implement a talent cultivation program and adopt a strict assessment mechanism so as to constantly enhance talent competitive advantages of the Group.

At the same time, we will actively establish strategic partnerships with upstream and downstream enterprises with synergistic effects to form complementary advantages and expand customer networks. The Group will also continue to expand to both upstream and downstream along the water industrial chain and engage in the businesses of water distribution, sludge disposal, recycling of reclaimed water and industrial wastewater treatment, etc., in order to size competitive projects.

BUSINESS REVIEW

In the year of 2018, the Group continued to execute the development strategy which was performed in the year of 2017. In order to match the Group's strategy, the Group conducted the divisions to focus on marketing, constructing and operating tightly.

Under the macroeconomic environment of strict supervision, deleveraging and risk prevention, the supply of funds has been greatly reduced, the financing difficulty of enterprises has increased accordingly, especially for the private enterprises, and the financing cost has increased substantially. The results of the Group was decreased due to the higher financing cost generated in the year of 2018. The Group adjusted the investments direction of the projects, which were mainly in the the fields of BOT projects, and strengthened the capital management so as to seize the prosperous opportunities in the fields of environmental protection in the future. The principal business of the Group includes Urban Water Treatment, Water Environment Comprehensive Remediation, Rural Water Improvement, etc.

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 has established 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 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 we will dedicate more efforts to enhancing the profitability and effectiveness of the Group.

1.1 Urban Water Treatment

As at 31 December 2018, the Group had entered into a total of 107 service concession arrangements projects, including 100 wastewater treatment plants, 3 water distribution plants, 3 sludge treatment plants and 1 reclaimed water treatment plant. Total daily treatment capacity of new wastewater treatment projects acquired during the year ended 31 December 2018 amounted to 315,000 tonnes. Total daily treatment capacity of wastewater treatment projects disposed of during the year ended 31 December 2018 amounted to 160,000 tonnes. Further details of the disposals are set out in the Company's announcements dated 25 July 2018. The Group will further expand its Urban Water Treatment chain in the future, in order to improve its profitability and competitiveness.

As at 31 December 2018, the Group's total daily treatment capacity was 4,268,350 tonnes, representing an increase of approximately 4% as compared with that of 4,113,350 tonnes as at 31 December 2017. The increase of the Group's service concession arrangements projects portfolio was a result of execution of its market expansion and development strategy.

Analysis of the Group's projects on hand as at 31 December 2018 is as follows:

	Daily wastewater treatment capacity	**Daily water distribution capacity**	**Daily reclaimed water treatment capacity**	**Daily sludge treatment capacity**	**Total**
(Tonnes)					
In operation	3,116,500	–	40,000	400	3,156,900
Not yet start operation/ Not yet transferred	900,000	211,300	–	150	1,111,450
Total	4,016,500	211,300	40,000	550	4,268,350
(Number of projects)					
In operation	81	–	1	2	84
Not yet start operation/ Not yet transferred	19	3	–	1	23
Total	100	3	1	3	107

	Number of projects	Treatment capacity	Actual processing volume during the year ended 31 December 2018
		(Tonnes/Day)	*(Million Tonnes)*
Wastewater treatment services			
Shandong	42	1,214,500	323.0
Henan	22	1,030,000	330.5
Heilongjiang	5	400,000	109.6
Zhejiang	2	250,000	81.6
Guangdong	4	220,000	11.2
Anhui	3	175,000	52.8
Shanxi	1	150,000	–
Jiangsu	6	102,000	27.4
Other provinces/municipalities*	15	475,000	65.6
	100	4,016,500	1,001.7
Water distribution services	3	211,300	–
Reclaimed water treatment services	1	40,000	3.2
Total	104	4,267,800	1,004.9
Sludge treatment services	3	550	–
Total	107	4,268,350	1,004.9

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

1.1.1 Operation Services

As at 31 December 2018, the Group had 81 wastewater treatment projects, 1 reclaimed water treatment project, and 2 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 year ended 31 December 2018 reached 3,116,500 tonnes (year ended 31 December 2017: 3,046,500 tonnes), 40,000 tonnes (year ended 31 December 2017: 40,000 tonnes), and 400 tonnes (year ended 31 December 2017: 350 tonnes), respectively. For the year ended 31 December 2018, the annualized utilization rate for wastewater and reclaimed water treatment plants in operation was approximately 85% (year ended 31 December 2017: 86%). The actual average water treatment tariff for the year ended 31 December 2018 was approximately RMB1.39 per tonne (year ended 31 December 2017: approximately RMB1.33 per tonne). The actual aggregate processing volume for the year ended 31 December 2018 was 1,004.9 million tonnes, representing an increase of approximately 14% (year ended 31 December 2017: 878.6 million tonnes).

Total operation revenue of the Group's Urban Water Treatment services recorded for the year ended 31 December 2018 was RMB819.7 million, representing an increase of approximately 18% (the year ended 31 December 2017: RMB695.0 million). The corresponding increase was primarily due to the commencement of operation of new water treatment projects through construction and business combination.

1.1.2 Construction Services

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

For the year ended 31 December 2018, construction revenue was recognised for 33 projects, including 27 wastewater treatment plants, 3 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 year ended 31 December 2018 was RMB1,098.9 million, representing an increase of approximately 22% (year ended 31 December 2017: RMB 901.4 million). The corresponding increase was primarily due to an increase in construction work of new BOT and PPP projects. As at 31 December 2018, the total daily treatment capacity of the service concession arrangements plants, which was still in the construction stage, was 845,000 tonnes, including 665,000 tonnes of wastewater treatment plants and 180,000 tonnes of water distribution plants.

1.2 Water Environment Comprehensive Remediation

In the year of 2018, the Group devoted more efforts to evaluating risks and prudently implementing the projects of Water Environment Comprehensive Remediation under the conditions of PPP projects related policies changing in Mainland China. The Group entered into 2 PPP projects and 13 EPC projects in Henan, Hainan, Jiangxi, Shandong and other provinces in Mainland China, of which the contract amount reached approximately RMB6,872.34 million (year of 2017: RMB6,589.97 million). Though the amount of signed PPP contracts reached a remarkable amount, the Group devoted efforts to lower the risk and enhance the reasonable profit. And 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 15 Water Environment Comprehensive Remediation projects under construction during the year ended 31 December 2018. The projects were mainly located in Henan, Hainan, Jiangxi, Shandong and other provinces in Mainland China. For the year ended 31 December 2018, total revenue of those projects was RMB457.3 million, representing an increase of approximately 17% (year ended 31 December 2017: RMB390.9 million). The corresponding increase was primarily due to an increase in commencement of the Group's construction work of new EPC projects.

1.3 Rural Water Improvement

In the year of 2018, the Group implemented 3 projects of Rural Water Improvement which were located in Guangdong and Guizhou Provinces. The Group will seize the opportunities brought about by the environmental protection policies implemented by the central government, to secure more high-quality environmental protection projects in this division in the coming years.

For the year ended 31 December 2018, total revenue of those projects was RMB101.6 million, representing an increase of approximately 48% (year ended 31 December 2017: RMB68.6 million). The corresponding increase was primarily due to an increase in commencement of construction work of the Group's new Rural Water Improvement projects.

FINANCIAL ANALYSIS

Revenue

For the year ended 31 December 2018, the Group recorded a revenue of RMB3,021.3 million, representing an increase of approximately 20% as compared to the previous corresponding period of RMB 2,523.9 million. The increase was mainly due to the increase in construction revenue of RMB298.2 million, the increase in operation revenue of RMB124.7 million, and the increase in financial income of RMB74.5 million. The increase in construction revenue was mainly due to the increase in commencement of construction work for the Group's new BOT, BOO, PPP and EPC projects, especially due to the new projects of Urban Water Treatment. 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 Group's total water treatment capacity and the increased financial assets.

Cost of Sales

The Group's cost of sales for the year ended 31 December 2018 amounted to RMB1,928.1 million, including construction costs of RMB1,402.6 million and operation costs of water treatment plants of RMB525.5 million, and representing an increase of approximately 23% as compared to the previous corresponding period of RMB1,570.6 million. The increase was due to the increase in construction costs of RMB228.0 million and the increase in operation costs of RMB129.5 million. The increase in construction costs was mainly due to the increase in commencement of the Group's construction work of new projects for Urban Water Treatment services and Water Environment Comprehensive Remediation services. The increase in operation costs was in line with the increased daily treatment capacity in operation and the increase in commencement of operation of upgrade projects.

Gross Profit Margin

For the year ended 31 December 2018, gross profit margin was approximately 36%, representing a slight decrease of 2 percentage points as compared to the previous corresponding period of approximately 38%. The decrease was mainly due to relative low gross profit margin of the newly commenced operation BOT projects and upgrade projects during the period.

Other Income and Gains

The Group recorded other income and gains of RMB218.5 million for the year ended 31 December 2018, representing an increase of approximately 15% as compared to the previous corresponding period of RMB190.7 million. The amount for this period primarily included government grants of RMB119.4 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 RMB7.5 million, interest income of RMB40.3 million from loans to third parties, interest income of RMB6.0 million from loans to an associate and joint ventures, gains on disposal of subsidiaries of RMB23.2 million, dividend income of RMB14.3 million and other investment income of RMB4.8 million.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the year ended 31 December 2018 was RMB14.2 million, representing an increase of approximately 18% as compared to RMB12.0 million of the previous corresponding period, which was a result of continuously ongoing market expansion strategy.

Administrative Expenses

Administrative expenses for the year ended 31 December 2018 was RMB284.5 million, representing an increase of approximately 2% as compared to the previous corresponding period of RMB278.9 million. The increase was mainly due to the increase in staff costs of RMB10.9 million which was caused by the increase of new companies operated in line with the Group's expansion plan and the increase in taxation and surcharge amounted to RMB5.7 million, partially offset by the decrease in share option expense amounted to RMB7.1 million.

Other Expenses

Other expenses for the year ended 31 December 2018 was RMB50.8 million, representing a climb increase as compared to the previous corresponding period of RMB7.8 million. The amount for this period primarily included losses on disposal of an associate RMB8.2 million, write-off of BT receivables and impairment of trade receivables and other receivables of RMB26.2 million and losses on foreign exchanges of RMB12.4 million.

Finance Costs

Finance costs for the year ended 31 December 2018 of RMB498.6 million mainly comprised of interests on interest-bearing bank borrowings and corporate bonds, representing an increase of approximately 40% as compared to RMB354.9 million in the previous corresponding period. The increase in finance costs was mainly due to, the increase of interest-bearing bank borrowings and corporate bonds in line with the increase in project portfolio, and higher financing cost lead by the macroeconomic environment under the strict supervision, deleveraging and risk prevention. The average balance of interest-bearing bank borrowings and corporate bonds increased by RMB1,734.3 million and the average interest rate was 5.64%, representing an increase of 0.65 percentage points as compared to that in the previous corresponding period. Due to the rapid increase in finance costs, the profit of the Group decreased accordingly. The Group will seek practical way to lower the average interest rate in the coming year.

Share of Profits and Losses of Associates

Share of losses of associates for the year ended 31 December 2018 was RMB5.6 million, representing a sharply decrease as compared to share of profits of associates of RMB43.7 million in the previous corresponding period, primarily due to the recognised profits of RMB41.0 million in previous year from the Group's associate Zhongyuan Asset Management Co., Ltd.* (中原資產管理有限公司) acquired on 30 September 2016 and re-classified as "available-for-sale financial investment" on 30 September 2017, and that the Group's associate Nanchang Qingshanhu Sewage Treatment Co., Ltd.* (南昌青山湖污水處理有限公司) was disposed of in June 2018.

* *For identification purposes only*

Share of Profits and Losses of Joint ventures

Share of losses of joint ventures for the year ended 31 December 2018 was RMB2.3 million, representing a decrease as compared to the share of profits of RMB2.6 million in the previous corresponding period, primarily because the projects execution progress of the joint ventures is slower than expectation.

Income Tax Expense

Income tax expense for the year ended 31 December 2018 included the current PRC income tax of RMB73.2 million and deferred tax expenses of RMB72.6 million, which were RMB70.7 million and RMB38.5 million for the previous corresponding period, respectively. The Group's effective tax rate for the year ended 31 December 2018 was approximately 32%, representing an increase of 12 percentage points as compared with 20% for the last corresponding period, which was mainly because of (i) the increase in unrecovered tax losses returned, (ii) the increase in the tax effect of tax losses not recognized, (iii) the increased income tax aroused from the gains on disposal of subsidiaries, (iv) the decrease in the tax effect of share of profits and losses of associates and joint ventures, (v) the decrease in the tax losses utilised from previous periods , and (vi) partial offset by the increase of tax exemption.

Financial Receivables

	As at	
	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
Receivables for service concession arrangements	**7,831,580**	9,087,022
Subtotal of financial receivables	**7,831,580**	9,087,022
Portion classified as current	**1,400,911**	1,410,155
Non-current portion	**6,430,669**	7,676,867

As at 31 December 2018, the Group's financial receivables were RMB7,831.6 million. According to IFRS 15 — Revenue from contracts with customers and the related amendments, the financial receivables related to the projects under construction were reclassified as contract assets, in which current portion amounted to RMB112.0 million and non-current portion amounted to RMB1,814.1 million, respectively. If reclassification is not conducted, the financial receivables should be RMB9,757.7 million, representing an increase of approximately 7% as compared to that of RMB9,087.0 million as at 31 December 2017. The increase would be primarily due to the increase in construction of the Group's service concession arrangements projects under BOT and PPP contracts and the acquisition of wastewater treatment projects through business combination.

Contract Assets

	As at	
	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
Contract assets	**2,491,404**	–
Portion classified as current	**209,474**	–
Non-current portion	**2,281,930**	–

As at 31 December 2018, the Group's contract assets was RMB2,491.4 million (31 December 2017: Nil), The Group applies IFRS 15 — Revenue from contracts with customers and the related amendments from 1 January 2018. According to the related requirements of IFRS 15, the assets related to the projects under construction were reclassified as contract assets. The amount of contract assets of RMB2,491.4 million was reclassified from service concession intangible assets of RMB467.9 million, financial receivables of RMB1,926.1 million (consisting of current portion of RMB112.0 million and non-current portion of RMB1,814.1 million) and construction contracts of RMB97.4 million, which were stated as in previous periods.

Trade and Bills Receivables

As at 31 December 2018, the Group's trade and bills receivables of RMB1,296.0 million (31 December 2017: RMB1,146.1 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 RMB149.9 million, mainly due to (i) the increase of Urban Water Treatment projects receivables of approximately RMB102.3 million, (ii) the net increase of Water Environment Comprehensive Remediation projects receivables of approximately RMB46.6 million, which included EPC project receivables of approximately RMB347.7 million arose from the progress billing and cash collected from EPC and BT projects of approximately RMB271.8 million, and (iii) write-off of BT receivables and impairment for receivables of RMB29.3 million.

Prepayments, Other Receivables and Other Assets

As at 31 December 2018, the Group's prepayments, other receivables and other assets of RMB1,046.4 million (31 December 2017: RMB823.8 million) increased by RMB222.6 million, mainly arose from the increase in loans to an associate and joint ventures of approximately RMB106.9 million, the increase in prepayments of approximately RMB17.8 million related to wastewater treatment plants construction, the increase in deductible input VAT of approximately RMB90.1 million, the increase in other operational receivables and accrued interests of approximately RMB44.5 million, the increase in provision for impairment of approximately RMB7.5 million, and decrease from deposits and staff advances of approximately RMB29.2 million.

Cash and Cash Equivalents

As at 31 December 2018, the Group's cash and cash equivalents of RMB976.2 million (31 December 2017: RMB1,689.6 million) decreased by RMB713.4 million as compared with that as at the end of previous period. The decrease was due to the increase in cash outflows in investing activities of the Group.

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Net cash flows used in operating activities[1]	**(126,727)**	(812,723)
Net cash flows used in investing activities	**(864,909)**	(479,452)
Net cash flows from financing activities	**276,348**	2,310,139
Net (decrease)/increase in cash and cash equivalents	**(715,288)**	1,017,964
Effect of foreign exchange rate changes	**1,901**	(3,616)
Cash and cash equivalents at beginning of the period	**1,689,633**	675,285
Cash and cash equivalents at end of the period	**976,246**	1,689,633

Note:

(1) For the years ended 2018 and 2017, the Group invested RMB767.1 million and RMB1,213.4 million, respectively, in the Group's BOT, TOT and PPP projects. Such investments were counted towards cash flows used in operating activities. Under the relevant accounting treatment, part of such cash outflows used in operating activities was used to form the non-current portion of financial receivables and contract assets in the Group's consolidated statement of financial position. For the years ended 31 December 2018 and 2017, the Group would have incurred cash inflows of RMB640.4 million and RMB400.7 million, respectively, if the Group's investments in BOT, TOT and PPP activities were not accounted for as cash flows used in operating activities.

Trade and Bills Payables

As at 31 December 2018, the Group's trade and bills payables of RMB1,638.3 million (31 December 2017: RMB1,290.5 million) increased by RMB347.8 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 31 December 2018, the Group's other payables and accruals of RMB507.0 million (31 December 2017: RMB514.5 million) decreased by RMB7.5 million, which was mainly due to the decrease of advance payment from customers caused by the increase of the settlements of the Group's construction work.

Liquidity and Financial Resources

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

As at 31 December 2018, the carrying amount of the Group's cash and cash equivalents was RMB976.2 million, representing a decrease of approximately RMB713.4 million as compared to RMB1,689.6 million as at 31 December 2017, which was mainly due to the net cash inflows from financing activities of RMB276.3 million, settlements of acquisition and investing payables amounted to RMB210.2 million and cash outflows of RMB131.7 million for purchases of property, plant and equipment and intangible assets from investing activities, purchases of other non-current financial assets amounted to RMB793.0 million, loans to an associate and joint ventures amounted to RMB105.0 million from investing activities, cash inflows of RMB325.9 million for disposal of subsidiaries and an associate from investing activities, cash inflows of RMB28.3 million for dividends from investing activities, and the net cash outflows of RMB126.7 million from operating activities .

The Group's total interest-bearing bank borrowings amounted to RMB7,096.0 million as at 31 December 2018 (31 December 2017: RMB6,395.1 million), over 75% of which bear interest at floating rates.

The Group's total corporate bonds amounted to RMB2,140.5 million as at 31 December 2018 (31 December 2017: RMB2,048.8 million), which comprised of corporate bonds issued on 18 December 2015, 30 June 2016, 19 April 2018, 3 September 2018 and 13 June 2018, with an aggregate amount of RMB900.0 million, RMB60.0 million, RMB300.0 million, RMB300.0 million and RMB300.0 million, respectively. All the corporate bonds bear interest at fixed rates.

On 10 August 2018, the Group received a net cash amount of RMB319.0 million through the issuance of asset-backed securities of RMB360.0 million in the Shanghai Stock Exchange bearing interest at the rate of 7.5% per annum. The Group invested RMB30.0 million in such ABS as a deferred ABS holder and RMB11.0 million as a preferred ABS holder.

As at 31 December 2018, the Group had banking facilities amounting to RMB57,724.2 million, of which RMB49,891.0 million have not been utilised. Of the unutilised banking facilities as at that date, RMB320.0 million were unrestricted facilities and the remaining RMB49,571.0 million were restricted facilities, of which RMB49,044.0 million were mainly limited to be utilized on environmental protection infrastructure and comprehensive management, and RMB527.0 million were mainly limited to be utilized for supplement of current loans to the Group .

As at 31 December 2018, the gearing ratio of the Group (calculated by net debt divided by capital and net debt) was 70%, while the gearing ratio was 67% as at 31 December 2017. The increase of gearing ratio is mainly due to the increase of the interest-bearing bank and other borrowings and issuance of corporate bonds for the new investments and acquisitions.

Charges on the Group's Assets

Outstanding balance of interest-bearing bank and other borrowings as at 31 December 2018 was approximately RMB7,096.0 million, which were repayable within one month to twenty-seven years and were secured by financial receivables, service concession intangible assets, properties, plants and equipment, trade receivables, contract assets and pledged deposits, of which the total amounts of the pledge of assets amounted to RMB6,883.0 million.

Capital Expenditure

During the year ended 31 December 2018, the Group's total capital expenditure were RMB1,230.7 million, compared to RMB1,898.2 million in 2017, primarily including the consideration of approximately RMB1,009.4 million for construction and acquisition of BOT, TOT, BOO and PPP projects and the consideration of approximately RMB216.4 million for acquisition of equity interests in subsidiaries, associates and a joint venture.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

On 1 January 2018, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, acquired 100% interest in Sichuan Weiyuan Hefeng Bioengineering Co., Ltd. (四川威遠禾豐生物工程有限公司) ("Weiyuan Hefeng"). The consideration was RMB100.3 million. In addition, Chongqing Kangda shall assume Weiyuan Hefeng's credit rights of approximately RMB6.5 million, and liabilities of approximately RMB9.1 million. The daily treatment capacity gained through acquisition of Weiyuan Hefeng was 20,000 tonnes for wastewater treatment. The equity transfer agreement was entered into on 13 October 2017, while the transaction was finally completed on 1 January 2018.

Further details of the transaction were set out in the Company's announcement dated 13 October 2017.

DISPOSAL OF SUBSIDIARIES

On 18 August 2018, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, disposed of all of its 99% interest in Yanggu County Guohuan Sewage Treatment Co., Ltd., 99% interest in Liaocheng Municipal Guohuan Sewage Treatment Co., Ltd., 100% interest in Ningguo Chengjian Sewage Treatment Co., Ltd., and 100% interest in Anhui Province Chengjian Huashan Sewage Treatment Co., Ltd. to Jinfeng Environmental Protection Co., Ltd. for a total consideration of approximately RMB294,165,000, of which RMB253,289,000 have been received during the year ended 31 December 2018 and RMB40,876,000 remained unsettled at 31 December 2018.

Further details of the transaction were set out in the Company's announcement dated 25 July 2018.

EMPLOYEES AND REMUNERATION POLICIES

The Group had 2,308 employees as at 31 December 2018. The remuneration package of the Group is generally determined with reference to market conditions and individual performance. Salaries are normally reviewed annually based on performance appraisals and other relevant factors. The Group provides external and internal training programs to its employees.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities (31 December 2017: Nil).

FOREIGN EXCHANGE RISK

Majority of the subsidiaries of the Company operate in the PRC with most of the transactions denominated and settled in RMB. As at 31 December 2018, except for the bank deposits and certain amount of interest-bearing bank borrowings denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations. Currently, the Group has not used derivative financial instruments to hedge its foreign currency risk.

EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to 31 December 2018.

PROPOSED FINAL DIVIDEND

The Board did not recommend payment of the final dividend for the year ended 31 December 2018 (year ended 31 December 2017: RMB2.0 cents per share).

CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from Friday, 31 May 2019 to Wednesday, 5 June 2019, both days inclusive, during which period no transfer of Shares can be registered. The record date for entitlement to attend and vote at the Annual General Meeting is Wednesday, 5 June 2019. In order to be qualified for attending and voting at the Annual General Meeting, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 30 May 2019.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and permitted under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), are held by the public at all times during the year ended 31 December 2018 and up to the date of this announcement.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules and there has been no deviation from the code provisions as set forth under the CG Code for the year ended 31 December 2018. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") consists of three independent non-executive Directors, namely Mr. Tsui Yiu Wa Alec, Mr. Peng Yongzhen and Mr. Chang Qing and Mr. Tsui Yiu Wa Alec serves as the chairman of the Audit Committee.

The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting procedure and internal controls of the Company. The Audit Committee has reviewed and approved the final results for the year ended 31 December 2018 and discussed the internal control and risk management systems. The Audit Committee considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

SCOPE OF WORK OF THE COMPANY'S AUDITOR IN RESPECT OF THE PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group'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 2018 as set out in the preliminary announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Federation of Accounts and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the year ended 31 December 2018.

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

Pursuant to the general mandate granted by the Shareholders to the Directors at the annual general meeting held on 25 May 2017 and 14 June 2018, the Company repurchased a total of 28,980,000 ordinary shares of the Company on the Stock Exchange during the year ended 31 December 2018 at an aggregate consideration of approximately HK$37,226,370 (before expense). All the repurchased shares were subsequently cancelled by the Company. Details of repurchase of such ordinary shares were as follows:

Month/year	**Number of ordinary shares repurchased**	**Price per Share** *(HK$)*		**Aggregate Consideration paid**
		Highest	*Lowest*	*(HK$)*
February 2018	5,260,000	1.62	1.46	8,299,550
June 2018	23,720,000	1.28	1.17	28,926,820

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

PUBLICATION OF THE CONSOLIDATED ANNUAL RESULTS AND 2018 ANNUAL REPORT ON THE WEBSITES OF THE HONG KONG STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Hong Kong Stock Exchange and the Company, and the 2018 annual report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Hong Kong Stock Exchange and the Company in due course.

By order of the Board
KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED
ZHAO Juanxian (alias, ZHAO Junxian)
Chairman

Hong Kong, 28 March 2019

As at the date of this announcement, the Board comprises nine Directors, namely Mr. ZHAO Juanxian (alias, ZHAO Junxian), Mr. ZHANG Weizhong, Ms. LIU Zhiwei, Mr. GU Weiping, Mr. WANG Litong and Mr. WANG Tianci as executive Directors; Mr. TSUI Yiu Wa Alec, Mr. PENG Yongzhen and Mr. CHANG Qing as independent non-executive Directors.