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

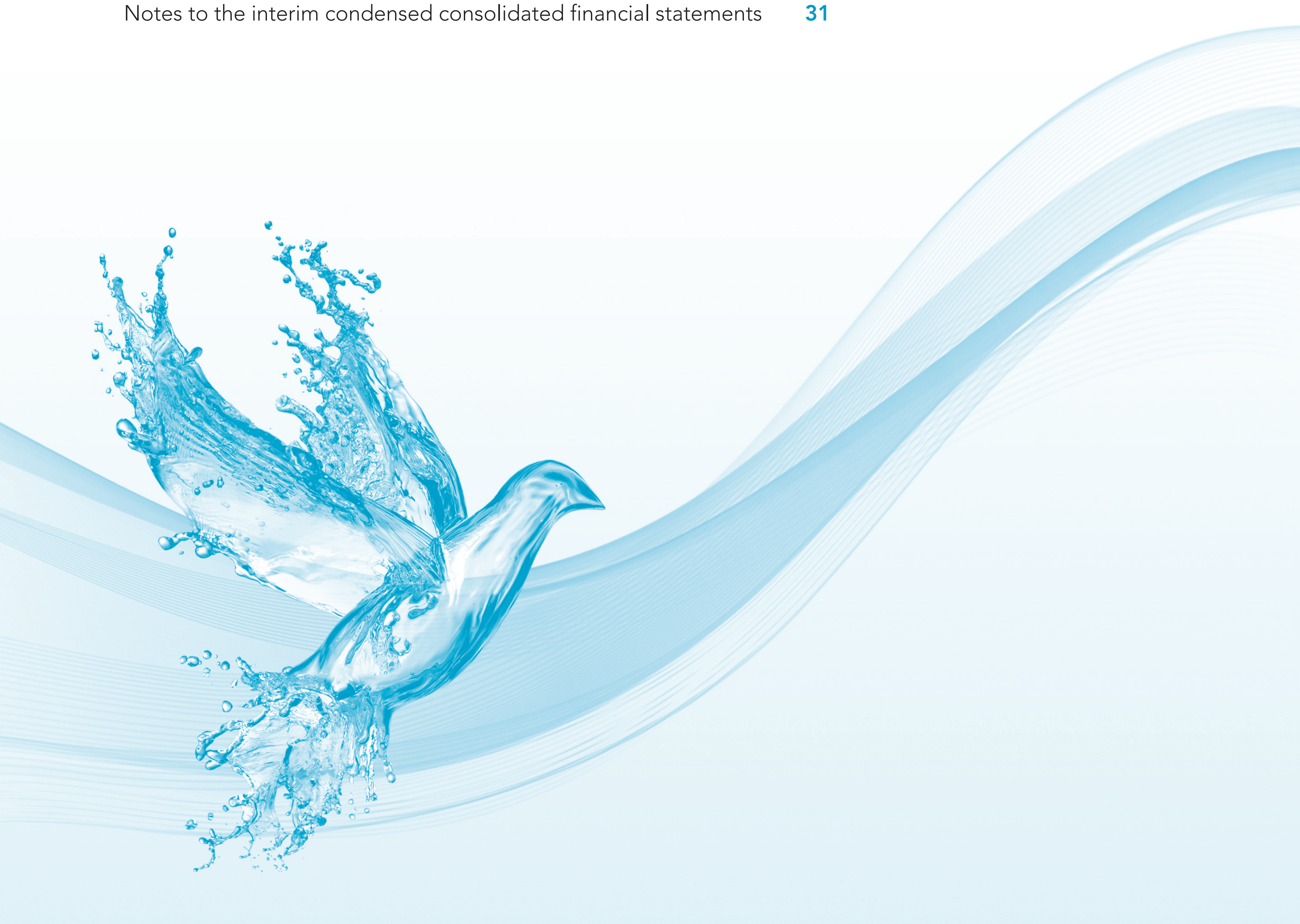
(Incorporated in the Cayman Islands with limited liability)

Stock Code : 6136

2018

Interim Report

CONTENTS



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhao Juanxian (alias, Zhao Junxian) (Chairman)
Mr. Zhang Weizhong (Chief executive officer)
Ms. Liu Zhiwei (Vice president)
Mr. Gu Weiping (Vice president)
Mr. Wang Litong (Vice president)
Mr. Wang Tianci

Independent Non-executive Directors

Mr. Tsui Yiu Wa Alec
Mr. Peng Yongzhen
Mr. Chang Qing

AUDIT COMMITTEE

Mr. Tsui Yiu Wa Alec (Chairman)
Mr. Peng Yongzhen
Mr. Chang Qing

REMUNERATION COMMITTEE

Mr. Chang Qing (Chairman)
Mr. Gu Weiping
Mr. Peng Yongzhen

NOMINATION COMMITTEE

Mr. Zhao Juanxian (alias, Zhao Junxian) (Chairman)
Mr. Zhang Weizhong
Mr. Tsui Yiu Wa Alec
Mr. Peng Yongzhen
Mr. Chang Qing

COMPANY SECRETARY

Mr. Cheng Wing Hong

AUTHORISED REPRESENTATIVES

Mr. Zhang Weizhong
Ms. Liu Zhiwei

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTER AND PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA ("CHINA" OR THE "PRC")

No. 72 Avenue of Stars
High-Tech Park
North New Zone
Chongqing
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 3205, 32/F
Alexandra House
18 Chater Road, Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

SMP Partners (Cayman) Limited
Royal Bank House
3rd Floor
24 Shedden Road
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

CORPORATE INFORMATION

LEGAL ADVISERS

As to Hong Kong law:
Luk & Partners
in Association with Morgan, Lewis & Bockius
Suites 1902–09
19th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:
Commerce & Finance Law Offices
6/F NCI Tower
A12 Jianguomenwai Avenue
Beijing
The PRC

PRINCIPAL BANKS

Industrial and Commercial Bank of China
Chongqing Rural Commercial Bank
China Merchants Bank
Shanghai Pudong Development Bank
China CITIC Bank

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

STOCK CODE

6136

COMPANY WEBSITE

http://www.kangdaep.com

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY DEVELOPMENT

Since 2017, the government's expenses on energy saving and environmental protection in the national public fiscal budget have surged rapidly once again, with public finance expenditure of the environmental protection industry amounted to RMB567.2 billion in 2017, representing an increase of approximately 20% on a year-on-year basis. Financial expenditure of environmental protection industry rose significantly in 2017 and will continue to increase in the future.

The Clean Water Action Plan (水十條) gives rise to national investments of RMB4.6 trillion in environmental industry. As 2018 is the intermediate assessment year of the Clean Water Action Plan, it is probable that the State might introduce new policies to improve the sewage discharge standard of industry segments on the supply side. The level of our orders will be maintained until 2020. As the Environmental Protection Tax Law of the People's Republic of China and the revised Law on Prevention and Control of Water Pollution took effect on 1 January 2018, which imposed further penalty for water environmental law violations. Six major environmental supervision centers under the Ministry of Environmental Protection are officially introduced and the environmental protection supervision by the central government will become the new normal. With the continuous strengthening of regulation on environmental protection by the central government and increase of investment in energy saving and environmental protection industry, there will be huge room for market growth in the future.

Public-Private Partnership ("PPP") is affected by both policy and interest rates and, in short term, regulation rather than restriction will exist, while the focus will be on quality and operation in the long run. Currently, financial risk prevention and regulation of the PPP market are the main themes. In short term, sustained high interest rate will affect the release of projects and financing, but since the policy is for the purpose of regulation rather than restriction, the direction of PPP to promote and encourage participation of private capital will not change in the long term

DEVELOPMENT STRATEGIES AND FUTURE DEVELOPMENT

The Group is now undergoing further reform to explore its potential and enhance its efficiency. With the expectation of higher emission standard of pollutants, we actively implement upgrading and expansion of existing sewage treatment plants, increase fees on sewage treatment and lower operation and administrative cost to enhance the Group's profitability.

Meanwhile, we are actively establishing strategic collaborative partnership with local governments and regional state-owned enterprises to achieve mutual advantages by jointly establishing regional environmental protection entities. We have successfully opened up an advantageous market in Henan Province and Jiangxi Province. The Group will also continue to expand 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.

Regional PPP orders obtained by the joint ventures established with the government strengthen the EPC project reserve of the Group. In the event of shortage of market capital in the future, the Group will be able to secure stable revenue while reducing project investment.

The Group won the bid for several PPP and EPC projects in the first half of 2018, including the Leping South Inland River Comprehensive Treatment EPC Project in Jiangxi Province, the Weiyuan Second Wastewater Treatment Plant and Ancillary Pipeline Network Works PPP Project in Sichuan Province, the Fan County Urban Area Wastewater Treatment Plant Upgrading and Reconstruction EPC Project and Puwang Wastewater Treatment Plant Upgrading and Reconstruction EPC Project in Henan Province.

MANAGEMENT DISCUSSION AND ANALYSIS

We will continuously promote innovation of internal management of the Group and enhance motivation by adequate redesignation of staff to reinforce our overall capability. We will enhance our branding comprehensively, implement a talent cultivation program, improve talent introduction and increase investment in research and development for technology innovation, so as to constantly enhance the Group's competitive advantages.

BUSINESS REVIEW

In the first half of 2018, the Group continued to execute the development strategy which was performed in the last year. In order to match the Group's strategy, the Group conducted the divisions to focus on marketing, constructing and operating tightly. The Group gained good results in 2018, and will 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, 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 the overall industry chain in Urban Water Treatment, which is executed under the contracts of BOT, TOT, PPP, BOO, 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 and will pursue expanding market share in Water Environment Comprehensive Remediation, which is executed under the 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, and continued to acquire more sound projects in the related areas.

In the future, the Group will continuously pursue more market opportunities in the above mentioned three divisions by investing in new projects as well as mergers and acquisitions. The Group is very confident about the Group's prospects and future profitability.

1.1 Urban Water Treatment

As at 30 June 2018, the Group had entered into a total of 110 service concession arrangements projects, including 103 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 six-month period ended 30 June 2018 amounted to 250,000 tonnes. The Group will further expand its Urban Water Treatment chain in the future, in order to improve its profitability and competitiveness.

As at 30 June 2018, the Group's total daily treatment capacity was 4,363,350 tonnes, representing an increase of approximately 6% as compared with the capacity 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 30 June 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	3,086,500	–	40,000	400	3,126,900
Not yet start operation/ Not yet transferred	1,025,000	211,300	–	150	1,236,450
Total	4,111,500	211,300	40,000	550	4,363,350
(Number of projects)					
In operation	83	–	1	2	86
Not yet start operation/ Not yet transferred	20	3	–	1	24
Total	103	3	1	3	110

	Number of projects	Treatment capacity (Tonnes/Day)	Actual processing volume during the six months ended 30 June 2018 (Million Tonnes)
Wastewater treatment services			
Shandong	44	1,284,500	159.0
Henan	22	1,030,000	165.2
Heilongjiang	5	400,000	51.5
Zhejiang	2	250,000	39.2
Anhui	5	225,000	29.3
Guangdong	4	220,000	4.5
Jiangsu	6	102,000	14.4
Other provinces/municipalities*	15	600,000	31.6
	103	4,111,500	494.7
Water distribution services	3	211,300	–
Reclaimed water treatment services	1	40,000	1.7
Total	107	4,362,800	496.4
Sludge treatment services	3	550	–
Total	110	4,363,350	496.4

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

1.1.1 Operation Services

As at 30 June 2018, the Group had 83 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 six-month period ended 30 June 2018 reached 3,086,500 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 six-month period ended 30 June 2018, the annualized utilization rate for wastewater and reclaimed water treatment plants in operation was approximately 85%. The actual average water treatment tariff for the six-month period ended 30 June 2018 was approximately RMB1.38 per tonne (year ended 31 December 2017: approximately RMB1.33 per tonne).The actual aggregate processing volume for the six-month period ended 30 June 2018 was 496.4 million tonnes (six-month period ended 30 June 2017: 407.4 million tonnes).

Total operation revenue of the Group's Urban Water Treatment services recorded for the six-month period ended 30 June 2018 was RMB404.5 million, representing an increase of approximately 36% (the six-month period ended 30 June 2017: RMB298.1 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 six-month period ended 30 June 2018, construction revenue was recognised for 28 projects, including 22 waste water treatment plants, 3 water distribution plants, and 3 sludge treatment plants which were mainly located in Henan, Shandong, Heilongjiang, Shanxi and Guangdong provinces in Mainland China. Total construction revenue of those projects for the six-month period ended 30 June 2018 was RMB546.5 million, representing an increase of approximately 34% (six-month period ended 30 June 2017: RMB408.5 million). The corresponding increase was primarily due to an increase in construction work of new BOT and PPP projects. As at 30 June 2018, the total daily treatment capacity of the service concession arrangements plants, which was still in the construction stage, was 860,150 tonnes, including wastewater treatment plants of 680,000 tonnes, water distribution plants of 180,000 tonnes and sludge treatment plants of 150 tonnes, respectively.

1.2 Water Environment Comprehensive Remediation

In the year of 2018, the Group devoted more efforts to the business of Water Environment Comprehensive Remediation under the guidance of its core strategy set in the year of 2016. The Group entered into 2 PPP projects and 11 EPC projects in Henan, Jiangxi, Shandong, Hainan and other provinces in Mainland China, of which the contract amount reached approximately RMB6,764.18 million. And the Group will seek more market opportunities in the business of Water Environment Comprehensive Remediation.

The Group had 13 Water Environment Comprehensive Remediation projects under construction during the six-month period ended 30 June 2018. The projects were mainly located in Henan, Jiangxi, Shandong, Hainan and other provinces in Mainland China. For the six-month period ended 30 June 2018, total revenue of those projects was RMB349.5 million, representing an increase of approximately 227% (six-month period ended 30 June 2017: RMB106.9 million), the corresponding increase was primarily due to an increase in commencement of the Group's construction work of new PPP and EPC projects.

1.3 Rural Water Improvement

In the year of 2017, the Group expanded 2 projects of Rural Water Improvement which were located in Guangdong Province. The Group will seize the opportunities brought about by the environmental protection policies implemented by the central government, to secure more environmental protection projects in this division in the coming years.

For the six-month period ended 30 June 2018, total revenue of those projects was RMB35.2 million, representing an increase of approximately 3% (six-month period ended 30 June 2017: RMB34.1 million). The corresponding increase was due to the commencement of construction work of the Group's Rural Water Improvement projects.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

Revenue

For the six-month period ended 30 June 2018, the Group recorded a revenue of RMB1,607.5 million, representing an increase of approximately 51% compared to the previous corresponding period of RMB1,067.6 million. The increase was mainly due to the increase in construction revenue of RMB381.7 million, the increase in operation revenue of RMB106.4 million, and the increase in financial income of RMB51.8 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 Water Environment Comprehensive Remediation. The increase in operation revenue was mainly due to the increase in commencement of operation of new BOT 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 six-month period ended 30 June 2018 amounted to RMB1,049.6 million, including construction costs of RMB801.2 million and operation costs of water treatment plants of RMB248.4 million and representing an increase of approximately 63% as compared to the previous corresponding period of RMB645.3 million. The increase was due to the increase in construction costs of RMB339.0 million and the increase in operation costs of RMB65.3 million. The increase in construction costs was mainly due to the increase in commencement of the Group's construction work of new projects for Water Environment Comprehensive Remediation services and Urban Water Treatment services. The increase in operation costs was in line with the increased daily treatment capacity in operation.

Gross Profit Margin

For the six-month period ended 30 June 2018, gross profit margin was approximately 35%, representing a decrease of 5 percentage points as compared to the previous corresponding period of approximately 40%. The decrease was mainly due to (i) the decrease of the construction margin caused by the highly competitive market environment; however, the Group's construction margin of new projects still remained at the reasonable level under the market competition, (ii) the leveling off of operation margin caused by the stable operation for the newly commenced water treatment plants, and (iii) the decrease in the proportion of financial income.

Other Income and Gains

The Group recorded other income and gains of RMB87.5 million for the six-month period ended 30 June 2018, representing an increase of approximately 18% as compared to the previous corresponding period of RMB74.0 million. The amount for this period primarily included government grants of RMB53.6 million, which was 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 RMB3.8 million, interest income of RMB10.5 million from loans to third parties, gains on foreign exchange transactions of RMB4.3 million, and investment income of RMB14.5 million.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the six-month period ended 30 June 2018 was RMB7.8 million, representing an increase of approximately 37% as compared to RMB5.7 million of the previous corresponding period, which was a result of continuously ongoing market expansion strategy.

Administrative Expenses

Administrative expenses for the six-month period ended 30 June 2018 was RMB143.0 million, representing an increase of approximately 5% as compared to the previous corresponding period of RMB135.6 million. The increase was mainly due to the increase in staff costs of RMB13.8 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 amounting to RMB2.9 million, partially offset by the decrease in professional expense amounting to RMB2.7 million.

Finance Costs

Finance costs for the six-month period ended 30 June 2018 mainly comprised interests on interest-bearing bank borrowings and corporate bonds of RMB224.0 million, representing an increase of approximately 44% as compared to RMB155.9 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. The average balance of interest-bearing bank borrowings and corporate bonds increased by RMB2,625.6 million and the average interest rate was 5.19% which was the same with the corresponding previous period.

Share of Profits and Losses of Associates

Share of losses of associates for the six month period ended 30 June 2018 was RMB3.6 million, representing a sharply decrease as compared to share of profits of associates of RMB36.3 million in the previous corresponding period, primarily due to the recognised profits of RMB37.2 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 sold in June 2018.

Profit before tax

Profit before tax for the six month ended 30 June 2018 was RMB253.3 million, representing an increase of approximately 11% as compared to RMB229.2 million in the previous corresponding period. The dividends of RMB14.3 million from Zhongyuan Asset Management Co., Ltd.* (中原資產管理有限公司), which was classified as equity instruments at fair value through other comprehensive income in 2018. The share of profit of associate of RMB37.2 million from Zhongyuan Asset Management Co., Ltd.*, which was classified as investment in associates in the first half of 2017. If the income from Zhongyuan Asset Management Co., Ltd.* is not included, the profit before tax should be RMB239.0 million, representing an increase of 24% as compared to RMB192.0 in the previous corresponding period.

* *For identification purposes only*

Income Tax Expense

Income tax expense for the six-month period ended 30 June 2018 included the current PRC income tax of RMB35.4 million and deferred tax expenses of RMB32.4 million, compared to RMB19.8 million and RMB26.1 million for the previous corresponding period, respectively. The Group's effective tax rate for the six-month period ended 30 June 2018 was about 27%, representing an increase of 7 percentage points as compared with 20% for the last corresponding period, which was mainly because the share of profits and losses of associates recognised in 2017 was free of tax and the deferred tax assets recognised was in line with previous period losses reversed.

Financial Receivables

	As at	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Receivables for service concession arrangements	**7,831,382**	9,087,022
Subtotal of financial receivables	**7,831,382**	9,087,022
Portion classified as current	**1,464,819**	1,410,155
Non-current portion	**6,366,563**	7,676,867

As at 30 June 2018, the Group's financial receivables were RMB7,831.4 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 RMB84.0 million and non-current portion amounted to RMB1,744.3 million, respectively. Provided that reclassification is not conducted, and financial receivables should be RMB9,659.7 million, representing an increase of approximately 6% as compared to RMB9,087.0 million as at 31 December 2017. The increase was primarily due to the increase in construction of the Group's service concession arrangements projects under BOT and PPP contracts and the acquisition of waste water treatment projects through business combination.

	As at	
Contract Assets	**30 June 2018 RMB'000**	31 December 2017 RMB'000
Contract assets	**2,192,646**	–
Portion classified as current	**155,293**	–
Non-current portion	**2,037,353**	–

As at 30 June 2018, the Group's contract assets was RMB2,192.6 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 RMB2,192.6 million was reclassified from service concession intangible assets of RMB293.1 million, financial receivables of RMB1,828.3 million (consisting of current portion of RMB84.0 million and non-current portion of RMB1,744.3 million) and construction contracts of RMB71.3 million, which were stated as in previous periods.

Trade and Bills Receivables

As at 30 June 2018, the Group's trade and bills receivables of RMB1,366.3 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 RMB220.2 million, mainly due to (i) the increase of Urban Water Treatment projects receivables of approximately RMB85.0 million, and (ii) the net increase of Water Environment Comprehensive Remediation projects receivables of approximately RMB135.6 million, which included EPC project receivables of approximately RMB284.0 million arose from the progress billing, and cash collected from EPC and BT projects of approximately RMB148.4 million.

Prepayments, Deposits and Other Receivables

As at 30 June 2018, the Group's prepayments, deposits and other receivables of RMB1,035.7 million (31 December 2017: RMB823.8 million) increased by RMB211.9 million, mainly arose from the increase in loans to third parties and accrued interests of approximately RMB99.0 million, the increase from receivables of associates sold in June 2018 and dividends receivables of approximately RMB104.6 million, the increase in prepayments of approximately RMB88.9 million related to wastewater treatment plants construction, and the decrease from deposits and other operational receivables of approximately RMB80.6 million.

Cash and Cash Equivalents

As at 30 June 2018, the Group's cash and cash equivalents of RMB1,234.2 million (31 December 2017: RMB1,689.6 million) decreased by RMB455.4 million compared with the end of previous period. The decrease was due to the repayment of Group's interest-bearing bank borrowings.

	For the six-month period ended 30 June	
	2018	2017
	RMB'000	RMB'000
Net cash flows used in operating activities[1]	**(121,377)**	(132,315)
Net cash flows used in investing activities	**(972,093)**	(100,488)
Net cash flows from financing activities	**178,517**	373,995
Net (decrease)/increase in cash and cash equivalents	**(914,953)**	141,192
Effect of foreign exchange rate changes	**(447)**	(1,435)
Cash and cash equivalents at beginning of the period	**1,689,633**	675,285
Cash and cash equivalents at end of the period	**774,233**	815,042

Note:

(1) For the six-month period ended 2018 and 2017, the Group invested RMB413.3 million and RMB389.7 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 six-month period ended 30 June 2018 and 2017, the Group would have incurred cash inflows of RMB291.9 million and RMB257.4 million, respectively, if the Group's investments in BOT, TOT and PPP activities were not accounted for as cash flows used in operating activities.

Trade and Bills Payables

As at 30 June 2018, the Group's trade and bills payables of RMB1,601.0 million (31 December 2017: RMB1,290.5 million) increased by RMB310.5 million, which was in line with the increase of the Group's construction work carried out and the settlements.

Other Payables and Accruals

As at 30 June 2018, the Group's other payables and accruals of RMB517.0 million (31 December 2017: RMB514.5 million) increased by RMB2.5 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, and the increase of dividend payable.

Liquidity and Financial Resources

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

As at 30 June 2018, the carrying amount of the Group's cash and cash equivalents was RMB1,234.2 million, representing an decrease of approximately RMB455.4 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 RMB178.5 million, settlements of acquisition and investing payables amounting to RMB190.3 million and cash outflows of RMB55.6 million for purchases of property, plant and equipment and intangible assets from investing activities, purchases of other non-current assets amounting to RMB151.5 million from investing activities, loans to third party amounting to RMB91.0 million from investing activities and the net cash outflows of RMB121.4 million from operating activities .

The Group's total interest-bearing bank borrowings amounted to RMB6,680.3 million as at 30 June 2018 (31 December 2017: RMB6,395.1 million), over 84% of which bear interest at floating rates.

The Group's total corporate bonds amounted to RMB2,147.7 million as at 30 June 2018 (31 December 2017: RMB2,048.8 million), which comprised of corporate bonds issued on 18 December 2015, 30 June 2016, 10 August 2017, 19 December 2017, 19 April 2018 and 12 June 2018, with an aggregate amount of RMB900.0 million, RMB60.0 million, RMB300.0 million, RMB300.0 million, RMB300.0 million and RMB300.0 million, respectively. All the corporate bonds bear interest at fixed rates.

As at 30 June 2018, the Group had banking facilities amounting to RMB57,716.5 million, of which RMB49,589.9 million have not been utilised. Of the unutilised banking facilities as at that date, RMB325.6 million were unrestricted facilities and the remaining RMB49,264.3 million were restricted facilities, which were mainly limited to be utilized on environmental protection infrastructure and comprehensive management.

As at 30 June 2018, the gearing ratio of the Group (calculated by net debt divided by capital and net debt) was 69%, 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 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 30 June 2018 was approximately RMB6,680.3 million, which were repayable within one month to twenty-eight years and were secured by financial receivables, service concession intangible assets, properties, plants and equipment, trade receivables and pledged deposits, of which the total amounts of the pledge of assets amounted to RMB5,908.4 million.

EMPLOYEES AND REMUNERATION POLICIES

The Group had 2,458 employees as at 30 June 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 30 June 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 30 June 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.

OTHER INFORMATION

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

The Company has adopted the code provisions included in the corporate governance code (the "Corporate Governance Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The Board is of the view that during the six months ended 30 June 2018, the Company has complied with the Corporate Governance Code and there has been no deviation from the code provisions as set forth under the Corporate Governance Code.

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

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

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

INTERIM DIVIDEND

The Board did not recommend the payment of interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Name of Director	Nature of Interest	Number of Shares	Approximate Percentage of Issued Share Capital of the Company
Mr. Zhao Juanxian (alias, Zhao Junxian)(1)	Person acting in concert (long position)	1,146,728,004	55.77%
Mr. Zhang Weizhong(2)	Beneficial owner (long position)	2,600,000	0.13%
Ms. Liu Zhiwei(2)	Beneficial owner (long position)	2,200,000	0.11%
Mr. Gu Weiping(2)	Beneficial owner (long position)	2,000,000	0.10%
Mr. Wang Litong(2)	Beneficial owner (long position)	2,000,000	0.10%
Mr. Wang Tianci(2)	Beneficial owner (long position)	1,000,000	0.05%

Notes:

(1) By virtue of Mr. Zhao Juanxian acting in concert with Mr. Zhao Sizhen, being the son of Mr. Zhao Juanxian, under the SFO, Mr. Zhao Juanxian is deemed to be interested in Mr. Zhao Sizhen's interests in the Company.

(2) The Directors' interest in the underlying shares of the Company are through Options granted by the Company pursuant to the Share Option Scheme adopted on 14 June 2014, details of which are set out under the section headed "Other information — Share Option Scheme".

Save as disclosed above, as at 30 June 2018, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES

As at 30 June 2018, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of Interest	Number of Shares	Percentage of Issued Share Capital of the Company
Mr. Zhao Sizhen[(1)]	Interest of controlled corporation (long position)	1,143,828,004	55.63%
	Beneficial owner (long position)	2,900,000	0.14%
Kangda Holdings Company Limited[(2)]	Beneficial owner (long position)	1,143,828,004	55.63%
Baring Private Equity Asia V Holding (5) Limited[(3)]	Beneficial owner (long position)	344,129,996	16.74%
The Baring Asia Private Equity Fund V, L.P.[(3)]	Interest of controlled corporation (long position)	344,129,996	16.74%
Baring Private Equity Asia GP V, L.P.[(3)]	Interest of controlled corporation (long position)	344,129,996	16.74%
Baring Private Equity Asia GP V Limited[(3)]	Interest of controlled corporation (long position)	344,129,996	16.74%
Mr. Jean Eric Salata[(3)]	Interest of controlled corporation (long position)	344,129,996	16.74%

Notes:

(1) By virtue of Mr. Zhao Juanxian acting in concert with Mr. Zhao Sizhen, under the SFO, Mr. Zhao Juanxian is deemed to be interested in Mr. Zhao Sizhen's interests in the Company.

(2) Kangda Holdings Company Limited is wholly-owned and controlled by Mr. Zhao Sizhen and Mr. Zhao Sizhen is therefore deemed to be interested in the shares held by Kangda Holdings Company Limited under the SFO.

(3) Baring Private Equity Asia V Holding (5) Limited is held as to approximately 99.35% by The Baring Asia Private Equity Fund V, L.P. Baring Private Equity Asia GP V, L.P., is the general partner of The Baring Asia Private Equity Fund V, L.P. Mr. Jean Eric Salata is the sole shareholder of Baring Private Equity Asia GP V Limited, the general partner of Baring Private Equity Asia GP V, L.P. Each of The Baring Asia Private Equity Fund V, L.P., Baring Private Equity Asia GP V, L.P., Baring Private Equity Asia GP V Limited and Mr. Jean Eric Salata is deemed to be interested in the relevant shares held by Baring Private Equity Asia V Holding (5) Limited. Mr. Jean Eric Salata disclaims beneficial ownership of such shares, other than to the extent of his economic interest in such entities.

Save as disclosed above, and as at 30 June 2018, the Directors were not aware of any persons (who were not a Director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the six-month period ended 30 June 2018, none of the Directors is aware that any Directors or any substantial shareholders (within the meaning of the Listing Rules) of the Company and their respective associates have any business or interest in any business that competes or may compete with the business of the Group or have or may have any conflicts of interest with the Group.

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 and permitted under the Listing Rules, are held by the public at all times as at the date of this report.

EVENTS AFTER THE REPORTING PERIOD

On 25 July 2018, the Group entered into the equity transfer agreements with Jingfeng Environmental Protection Co., Ltd. (金風環保有限公司), for the disposal of 100% equity interests in Ningguo Chengjian Sewage Treatment Co., Ltd., Anhui Province Chengjian Huashan Sewage Treatment Co., Ltd., Yanggu County Guohuan Sewage Treatment Co., Ltd. and Liaocheng Municipal Guohuan Sewage Treatment Co., Ltd., at an aggregated consideration of approximately RMB225,907,000, of which approximately RMB203,316,000 has been paid before 23 August 2018. Upon completion of such disposals, these companies will cease to be subsidiaries of such Group.

On 10 August 2018, the Group received a net cash amount of RMB330,000,000 through the issuance of asset-backed securities (the "ABS") of RMB360,000,000 in the Shanghai Stock Exchange. The Group invested RMB30,000,000 in such ABS as a deferred ABS holder.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") for a term of 10 years on 14 June 2014 (the "Adoption Date"). The following is a summary of principal terms of the Share Option Scheme:

On 19 December 2014, the Company granted a total of 84,500,000 options to subscribe for 84,500,000 shares in conformity with the Share Option Scheme to certain Directors and employees. During the six months ended 30 June 2018, 800,000 options were lapsed or cancelled, and no option was granted or exercised under the Share Option Scheme. The options granted shall vest and become exercisable within one year from the relevant date of vesting in three tranches in the proportion of 30%, 30% and 40% at the end of the 12th, 24th and 36th month after the date of grant, unless otherwise determined by the Company at its discretion in exceptional circumstances. As at 30 June 2018, 27,360,000 Shares were vested and became exercisable.

Set out below are the details of the outstanding options granted under the Share Option Scheme:

				Number of options					
Name of grantee	**Date of grant**	**Closing Price as at the date of grant of options** (HK$)	**Exercise price per share** (HK$)	**Outstanding as at 1 January 2018**	**Granted during the Period**	**Exercised during the Period**	**Cancelled/ lapsed during the Period**	**Outstanding as at 30 June 2018**	**Exercise period** (Note 1)
Director									
Zhang Weizhong (also the chief executive officer)	19/12/2014	3.340	3.386	–	–	–	–	–	A
				–	–	–	–	–	B
				2,600,000	–	–	–	2,600,000	C
Sub-total				2,600,000	–	–	–	2,600,000	
Liu Zhiwei	19/12/2014	3.340	3.386	–	–	–	–	–	A
				–	–	–	–	–	B
				2,200,000	–	–	–	2,200,000	C
Sub-total				2,200,000	–	–	–	2,200,000	
Gu Weiping	19/12/2014	3.340	3.386	–	–	–	–	–	A
				–	–	–	–	–	B
				2,000,000	–	–	–	2,000,000	C
Sub-total				2,000,000	–	–	–	2,000,000	
Wang Litong	19/12/2014	3.340	3.386	–	–	–	–	–	A
				–	–	–	–	–	B
				2,000,000	–	–	–	2,000,000	C
Sub-total				2,000,000	–	–	–	2,000,000	
Wang Tianci	19/12/2014	3.340	3.386	–	–	–	–	–	A
				–	–	–	–	–	B
				1,000,000	–	–	–	1,000,000	C
Sub-total				1,000,000	–	–	–	1,000,000	
Other employees (in aggregate)	19/12/2014	3.340	3.386	–	–	–	–	–	A
				–	–	–	–	–	B
				18,360,000	–	–	(800,000)	17,560,000	C
Sub-total				18,360,000	–	–	(800,000)	17,560,000	
Total				28,160,000	–	–	(800,000)	27,360,000	

Note:

1. The respective exercise periods of the share options granted are as follows:

   A: 19 December 2015 to 18 December 2016

   B: 19 December 2016 to 18 December 2017

   C: 19 December 2017 to 18 December 2018

The Directors have established the values of the share options granted during the period, calculated using binomial model as at the date of grant of the share options.

AUDIT COMMITTEE AND REVIEW OF THE INTERIM RESULTS

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

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2018. The Audit Committee has also discussed matters with respect to the accounting policies, the practices adopted by the Company and the internal control with senior management members of the Company.

The unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2018 has also been reviewed by the Company's auditor, Ernst & Young, in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by International Auditing and Assurance Standards Board.

REMUNERATION COMMITTEE

The Company has established a remuneration committee on 30 October 2013 (the "Remuneration Committee") with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code. The primary duties of the Remuneration Committee are to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objects and make recommendations to the Board on the remuneration package of individual executive Directors and senior management. The Remuneration Committee currently consists of three members, namely Mr. Chang Qing, Mr. Gu Weiping and Mr. Peng Yongzhen, and Mr. Chang Qing is the chairman of the Remuneration Committee.

NOMINATION COMMITTEE

The Company has established a nomination committee on 30 October 2013 (the "Nomination Committee") with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code. The primary function of the Nomination Committee is to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive. The Nomination Committee currently consists of five members, comprising Mr. Zhao Juanxian (alias, Zhao Junxian), Mr. Zhang Weizhong, Mr. Tsui Yiu Wa Alec, Mr. Peng Yongzhen and Mr. Chang Qing, and Mr. Zhao Juanxian (alias, Zhao Junxian) is the chairman of the Nomination Committee.

The Board had adopted a board diversity policy aiming to set out the approach to achieve the diversity of members of the Board to enhance the effectiveness of the Board.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

The Company has made specific enquiry to all of the Directors and all of the Directors have confirmed that they have complied with the required standards as set out in the Model Code during the six months ended 30 June 2018.

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

Pursuant to the general mandates granted by the Shareholders to the Directors at the annual general meetings held on 25 May 2017 and 14 June 2018, the Company repurchased a total of 5,260,000 and 23,720,000 ordinary shares of the Company respectively on the Stock Exchange during the six-month period ended 30 June 2018 at an aggregate consideration of approximately HK$37,226,370 (before expense). 5,260,000 shares were subsequently cancelled by the Company on 14 March 2018 and 23,720,000 shares were subsequently cancelled by the Company on 31 July 2018. Details of repurchase of such ordinary shares of the Company were as follows:

Month/year	Number of ordinary shares repurchased	Price per Share		Aggregate Consideration Paid
		Highest	Lowest	(approximately)
		HK$	HK$	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 six-month period ended 30 June 2018.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement has been published on the website of the HKEx at www.hkexnews.hk and the website of the Company at www.kangdaep.com. This interim report of the Group for the six months ended 30 June 2018 will be published on the aforesaid websites of the HKEx and the Company and will be dispatched to the Company's shareholders in due course.

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

Hong Kong, 23 August 2018

INDEPENDENT REVIEW REPORT

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真:+852 2868 4432
ey.com

To shareholders of Kangda International Environmental Company Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim condensed consolidated financial statements set out on pages 24 to 68, which comprises the condensed consolidated statement of financial position of Kangda International Environmental Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as at 30 June 2018 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") issued by the International Accounting Standards Board.

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by International Auditing and Assurance Standards Board. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Certified Public Accountants
Hong Kong

23 August 2018

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

For the six-month period ended 30 June

	Notes	For the six-month period ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
REVENUE	4	**1,607,487**	1,067,596
Cost of sales		**(1,049,581)**	(645,265)
Gross profit		**557,906**	422,331
Other income and gains	5	**87,464**	74,022
Selling and distribution expenses		**(7,751)**	(5,654)
Administrative expenses		**(143,002)**	(135,572)
Other expenses		**(11,739)**	(4,976)
Finance costs	7	**(224,039)**	(155,908)
Share of profits and losses of:			
Associates		**(3,613)**	36,309
Joint ventures		**(1,883)**	(1,373)
PROFIT BEFORE TAX	6	**253,343**	229,179
Income tax expense	8	**(67,830)**	(45,875)
PROFIT FOR THE PERIOD		**185,513**	183,304
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax:			
Share of other comprehensive income of an associate		**–**	112,909
Other comprehensive expense not to be reclassified to profit or loss in subsequent periods, net of tax:			
Fair value loss on equity instruments at fair value through other comprehensive income		**(94,350)**	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**91,163**	296,213
Profit attributable to:			
Owners of the parent		**183,660**	176,660
Non-controlling interests		**1,853**	6,644
		185,513	183,304
Total comprehensive income attributable to:			
Owners of the parent		**89,310**	289,569
Non-controlling interests		**1,853**	6,644
		91,163	296,213
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
		RMB	RMB
— Basic and diluted	9	**8.93 cents**	8.54 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2018

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	148,172	152,209
Investment properties		10,875	11,226
Investments in associates		223,667	228,908
Investments in joint ventures		126,689	128,572
Available-for-sale financial investments		–	621,000
Equity instruments at fair value through other comprehensive income		510,000	–
Service concession intangible assets		757,715	914,503
Other intangible assets		3,581	3,737
Contract assets		2,037,353	–
Goodwill		60,219	60,219
Financial receivables	11	6,366,563	7,676,867
Deferred tax assets		78,524	81,652
Other non-current assets		151,500	–
Prepayments, deposits and other receivables		388,036	393,254
Total non-current assets		10,862,894	10,272,147
CURRENT ASSETS			
Inventories		15,731	11,659
Construction contracts		–	80,485
Contract assets		155,293	–
Financial receivables	11	1,464,819	1,410,155
Trade and bills receivables	12	1,366,318	1,146,070
Prepayments, deposits and other receivables		647,641	430,590
Pledged deposits		219,458	194,855
Cash and cash equivalents	13	1,234,233	1,689,633
Total current assets		5,103,493	4,963,447
CURRENT LIABILITIES			
Trade and bills payables	14	1,590,639	1,287,658
Other payables and accruals		516,958	514,524
Contract liabilities		15,757	–
Deferred income		17,383	25,450
Interest-bearing bank and other borrowings	15	2,625,102	2,805,827
Corporate bonds		900,000	1,100,000
Tax payable		32,920	40,397
Total current liabilities		5,698,759	5,773,856
NET CURRENT LIABILITIES		(595,266)	(810,409)
TOTAL ASSETS LESS CURRENT LIABILITIES		10,267,628	9,461,738

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2018

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Trade payables	14	10,356	2,851
Interest-bearing bank and other borrowings	15	4,055,171	3,589,235
Corporate bonds		1,247,672	948,841
Deferred income		4,658	9,317
Deferred tax liabilities		730,953	704,633
Total non-current liabilities		6,048,810	5,254,877
Net assets		4,218,818	4,206,861
EQUITY			
Equity attributable to owners of the parent			
Issued capital		16,149	16,392
Reserves		3,996,500	3,986,922
		4,012,649	4,003,314
Non-controlling interests		206,169	203,547
Total equity		4,218,818	4,206,861

Zhang Weizhong
Director

Liu Zhiwei
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2018

	Attributable to owners of the parent									
	Issued capital RMB'000 (Unaudited)	Share premium RMB'000 (Unaudited)	Merger reserve RMB'000 (Unaudited)	Special reserve RMB'000 (Unaudited)	Share option reserve RMB'000 (Unaudited)	Available-for-sale financial investment revaluation reserve RMB'000 (Unaudited)	Retained profits RMB'000 (Unaudited)	Total RMB'000 (Unaudited)	Non-controlling interests RMB'000 (Unaudited)	Total equity RMB'000 (Unaudited)
As at 31 December 2016	16,444	1,758,407	383,563	–	49,280	14,395	1,324,896	3,546,985	146,182	3,693,167
Profit for the period	–	–	–	–	–	–	176,660	176,660	6,644	183,304
Other comprehensive income										
Share of other comprehensive income of an associate	–	–	–	–	–	112,909	–	112,909	–	112,909
Total comprehensive income	–	–	–	–	–	112,909	176,660	289,569	6,644	296,213
Dividends declared and allocated	–	(33,080)	–	–	–	–	–	(33,080)	–	(33,080)
Capital contribution from the non-controlling shareholder	–	–	–	–	–	–	–	–	49,000	49,000
Share of other capital reserve of an associate	–	–	43,509	–	–	–	–	43,509	–	43,509
Equity-settled share option scheme	–	–	–	–	3,694	–	–	3,694	–	3,694
Transfer to special reserve	–	–	–	8,252	–	–	(8,252)	–	–	–
Utilisation of special reserve	–	–	–	(8,252)	–	–	8,252	–	–	–
As at 30 June 2017	16,444	1,725,327*	427,072*	–*	52,974*	127,304*	1,501,556*	3,850,677	201,826	4,052,503
As at 31 December 2017 (Audited)	16,392	1,715,535	376,198	–	56,395	99,450	1,739,344	4,003,314	203,547	4,206,861
Effect of adoption of International Financial Reporting Standards 9 Financial Instruments	–	–	–	–	–	–	(8,389)	(8,389)	–	(8,389)
As at 1 January 2018 (Restated)	16,392	1,715,535	376,198	–	56,395	99,450	1,730,955	3,994,925	203,547	4,198,472
Profit for the period	–	–	–	–	–	–	183,660	183,660	1,853	185,513
Other comprehensive income for the period:										
Changes in fair value of fair value through other comprehensive income, net of tax	–	–	–	–	–	(94,350)	–	(94,350)	–	(94,350)
Total comprehensive expenses for the period	–	–	–	–	–	(94,350)	183,660	89,310	1,853	91,163
Dividends declared	–	(41,122)	–	–	–	–	–	(41,122)	–	(41,122)
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	2,605	2,605
Acquisition of non-controlling interests	–	–	755	–	–	–	–	755	(1,836)	(1,081)
Shares repurchased (a)	(243)	(30,976)	–	–	–	–	–	(31,219)	–	(31,219)
Transfer to special reserve (b)	–	–	–	13,980	–	–	(13,980)	–	–	–
Utilisation of special reserve (b)	–	–	–	(13,980)	–	–	13,980	–	–	–
As at 30 June 2018	16,149	1,643,437*	376,953*	–*	56,395*	5,100*	1,914,615*	4,012,649	206,169	4,218,818

* These reserve accounts comprise the consolidated reserves of RMB3,996,500,000 (30 June 2017: RMB3,834,233,000) in the consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2018

Notes:

(a) During the six-month period ended 30 June 2018, the Company repurchased 28,980,000 ordinary shares on the Hong Kong Stock Exchange at a total consideration of RMB31,219,000. The purchased shares were cancelled during the period and the issued share capital of the Company was reduced by the par value of RMB243,000. The excess amount paid for the purchase of the shares over the par value of RMB30,976,000 was charged to the share premium of the Company.

(b) In preparation of these consolidated financial statements, the Group has appropriated certain amounts of retained profits to a special reserve fund for each of the six-month periods ended 30 June 2017 and 2018 respectively, for safety production expense purposes as required by directives issued by the relevant People's Republic of China ("PRC") government authorities. The Group charged the safety production expenses to profit or loss when such expenses were incurred, and at the same time the corresponding amounts of special reserve fund were utilised and transferred back to retained profits until such special reserve was fully utilised.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2018

	Notes	For the six-month period ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**253,343**	229,179
Adjustments for:			
Finance costs	7	**224,039**	155,908
Foreign exchange differences	5	**(4,291)**	(3,401)
Share of profit and loss of associates and a joint venture		**5,496**	(34,936)
Equity-settled share option expense		**–**	3,694
Bank interest income	5	**(3,819)**	(1,989)
Interest income from loans to third parties	5	**(10,516)**	(17,387)
Investment income	5	**(126)**	(904)
Investment income from equity instruments at fair value through other comprehensive income	5	**(14,325)**	–
Depreciation of property, plant and equipment	6	**5,931**	4,201
Depreciation of investment properties		**351**	128
Amortisation of service concession intangible assets	6	**20,545**	2,068
Amortisation of other intangible assets	6	**156**	103
Losses on disposal of an associate		**8,154**	–
Losses on disposal of items of property, plant and equipment, net		**85**	72
Write-off of impairment of trade receivables	6	**2,567**	4,341
Impairment of trade receivables and other receivables	6	**444**	–
		488,034	341,077
(Increase)/decrease in inventories		**(3,982)**	26,303
Increase in financial receivables		**(15,148)**	(368,334)
Decrease in construction contracts		**–**	8,313
Increase in contract assets		**(548,301)**	–
Increase in trade and bills receivables		**(220,117)**	(91,680)
(Increase)/decrease in prepayments, deposits and other receivables		**(229)**	5,637
Increase in trade and bills payables		**303,455**	4,438
Decrease in other payables and accruals		**(24,445)**	(33,277)
Decrease in contract liabilities		**(50,584)**	–
Decrease in deferred income		**(12,726)**	(8,066)
Cash used in operations		**(84,043)**	(115,589)
Interest received		**5,860**	6,712
Income taxes paid		**(43,194)**	(23,438)
Net cash flows used in operating activities		**(121,377)**	(132,315)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2018

	Notes	For the six-month period ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		(2,687)	(35,222)
Additions to service concession intangible assets		(52,872)	(64,535)
Additions of investments in associates		(101,826)	(36,000)
Proceeds from disposals of items of property, plant and equipment		722	73
Increase of non-pledged time deposits with original maturity of more than three months when acquired	13	(460,000)	–
Additions of other non-current assets		(151,500)	–
Investment income received	5	126	904
Acquisition of subsidiaries, net of cash acquired	17	(87,369)	(40,075)
Acquisition of non-controlling interests		(1,081)	–
Prepayment for acquisition		–	(73,143)
Repurchase of available-for-sale financial investments		–	149,750
Increase in loans due from third parties included in other receivables		(91,003)	(268)
Increase in pledged deposits		(24,603)	(1,972)
Net cash flows used in investing activities		(972,093)	(100,488)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase of bank loans		1,984,732	1,752,133
Proceeds from issue of corporate bonds		600,000	–
Repayment of bank loans		(1,686,342)	(1,262,692)
Repayment of corporate bonds		(500,000)	–
Interest paid		(191,259)	(131,366)
Share repurchased		(31,219)	–
Capital contribution from non-controlling shareholders		2,605	49,000
Dividends paid to equity holders of the parent		–	(33,080)
Net cash flows from financing activities		178,517	373,995
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(914,953)	141,192
Cash and cash equivalents at beginning of the period	13	1,689,633	675,285
Effect of foreign exchange rate changes, net		(447)	(1,435)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	13	774,233	815,042

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

1. CORPORATE AND GROUP INFORMATION

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

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

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Kangda Holdings Company Limited, a company incorporated in the British Virgin Islands ("BVI").

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

2.1 Basis of preparation

The unaudited interim condensed consolidated financial statements for the six-month period ended 30 June 2018 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board and compliance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

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

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

Going concern

As at 30 June 2018, the Group's current liabilities exceeded its current assets by approximately RMB595,266,000 (31 December 2017: net current liabilities: RMB810,409,000). In addition, the Group has contracted capital commitments of RMB300,981,000 and commitments in respect of service concession arrangements of RMB3,238,407,000. 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 interim condensed consolidated financial statements, which are as follows:

- Unutilised banking facilities available to the Group, the directors of the Company are confident that such banking facilities could 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 commercial papers by the Group as approved by the relevant PRC government authorities;

- Cash inflows arising from the Group's activities subsequent to 30 June 2018, which included the disposal of certain subsidiaries for cash and issuance of asset-backed securities for cash (note 24).

In light of the available funding as mentioned above, and after taking into account the operating performance of the Group and cash flow projection prepared by the directors of the Company. The directors of the Company are confident that the Group will have sufficient working capital to meet with its financial obligations and operation requirements in the foreseeable future of at least up to 30 June 2019. Hence the directors of the Company are of the opinion that it is appropriate to prepare these interim condensed consolidated financial statements under the going concern basis.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

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

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

In the period, the Group has applied, for the first time, the following new and amendments to International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for the period.

IFRS 9	*Financial instruments*
IFRS 15	*Revenue from contracts with customers and the related amendments*
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 IAS 28	*Investments in associates and joint ventures clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*
Amendments to IAS 40	*Transfers of investment property*
Amendments to IFRS 1	*First-time Adoption of International Financial Reporting Standards — Deletion of short-term exemptions for first-time adopters*

The Group applies IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* that require restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the unaudited interim condensed consolidated financial statements of the Group.

Further information about IFRS 15 and IFRS 9 is described below:

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a 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.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

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

IFRS 15 *Revenue from Contracts with Customers* *(continued)*

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective method of adoption. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated.

The Group engages in certain service concession arrangements and construction services under Engineering Procurement Construction (the "EPC") arrangements. The expected impacts arising from the adoption of IFRS 15 on the Group are further explained as follows:

(a) Service concession arrangements

The Group has entered into a number of service concession arrangements with 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 WTPs, RWTPs, WDPs, 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.

For the six months ended 30 June 2018, the Group has concluded that the adoption of IFRS 15 did not have any material impact on the Group's revenue recognition.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

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

IFRS 15 *Revenue from Contracts with Customers* *(continued)*

(b) EPC arrangements

In prior reporting periods, the Group accounted for EPC arrangements when the outcome of a construction contract under the EPC agreements can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract. The stage of completion is measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Under IFRS 15, properties that have no alternative use to the Group due to contractual reasons and when the Group has an enforceable right to payment from the customers for performance completed to date, the Group recognises revenue as the performance obligation is satisfied over time in accordance with the input method for measuring progress.

The excess of cumulative revenue recognised in profit or loss over the cumulative billings to purchasers of properties is recognised as contract assets. The contract assets will be reclassified as receivables when the progress billings are issued or properties are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The excess of cumulative billings to purchasers of properties over the cumulative revenue recognised in profit or loss is recognised as contract liabilities. The contract liability is recognised as revenue when the Group satisfies its performance obligations.

For the six months ended 30 June 2018, the Group has concluded that the adoption of IFRS 15 did not have any material Impact on the Group's revenue recognition.

(c) Presentation of contract assets and liabilities

As required for the interim condensed consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to Note 3 and 4 for the disaggregated revenue.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

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

IFRS 15 *Revenue from Contracts with Customers (continued)*

(c) Presentation of contract assets and liabilities (continued)

The impact on the Group's interim condensed consolidated financial position by application of IFRS 15 is as follows:

	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	914,503	(234,718)	679,785
Financial receivables	7,676,867	(1,257,193)	6,419,674
Contract assets	–	1,491,911	1,491,911
Current Assets			
Financial receivables	1,410,155	(13,595)	1,396,560
Construction contracts	80,485	(80,485)	–
Contract assets	–	94,080	94,080
Current Liabilities			
Other payables and accruals	514,524	(66,341)	448,183
Contract liabilities	–	66,341	66,341

Note: As at 1 January 2018, advances from customers of RMB66,341,000 in respect of construction contracts previously included in other payables and accruals were reclassified to contract liabilities.

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.

(a) Classification and measurement

Except for certain trade receivables, under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

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

IFRS 9 *Financial Instruments (continued)*

(a) Classification and measurement (continued)

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and bills receivables, other receivables, and contract assets.

- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group's quoted debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. Under IAS 39, The Group does not have any financial assets classified in this category.

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Group's unlisted equity instruments were classified as available-for-sale financial investments.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied modified retrospective method to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

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

IFRS 9 *Financial Instruments (continued)*

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For contract assets, trade and bills receivables and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group may consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

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

IFRS 9 *Financial Instruments (continued)*

(b) Impairment (continued)

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to retained profits of RMB8,389,000.

	31 December 2017 (Audited) RMB'000	Reclassifications under IFRS 9 RMB'000	Adjustments under IFRS 9 RMB'000	1 January 2018 (As restated) RMB'000
Financial assets				
Available-for-sale financial investments	621,000	(621,000)	–	–
Equity instruments at fair value through other comprehensive income	–	621,000	–	621,000
Trade and bills receivables	1,146,070	–	(3,076)	1,142,994
Prepayments, deposits and other receivables	823,844	–	(7,497)	816,347
Deferred tax assets	81,652	–	2,184	83,836
Reserves				
Retained profits	1,739,344	–	(8,389)	1,730,955

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

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

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

The IASB issued amendments to IFRS 2 *Share-based Payment* that 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 tax obligations; 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. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

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.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

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

Amendments to IAS 28 *Investments in Associates and Joint Ventures — Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

The amendments clarify 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, when applying the equity method, 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. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Deletion of short-term exemptions for first-time adopters*

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements.

2.3 Issued but not yet effective International Financial Reporting Standards

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these financial statements.

IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments*[1]
IFRS 16	*Leases*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Annual Improvements 2015–2017 Cycle	*Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23*[1]
IFRS 17	*Insurance Contracts*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application.

3. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

3. OPERATING SEGMENT INFORMATION *(continued)*

For the six-month period ended 30 June 2018 (Unaudited)	Urban Water Treatment RMB'000	Water Environment Comprehensive Remediation RMB'000	Rural Water Improvement RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	1,221,181	351,099	35,207	1,607,487
	1,221,181	351,099	35,207	1,607,487
Segment results	370,352	37,802	6,219	414,373
Reconciliation:				
Unallocated income and gains				23,382
Share of loss of associates				(3,491)
Corporate and other unallocated expenses				(53,095)
Finance costs				(127,826)
Profit before tax for the period				253,343
Other segment information				
Share of profit and loss of associates	2,818	(2,940)	–	(122)
Share of loss of unallocated associates				(3,491)
Share of loss of joint ventures	(766)	(1,117)	–	(1,883)
Losses on disposal of an associate	(8,154)	–	–	(8,154)
Depreciation and amortization	24,243	83	–	24,326
Unallocated depreciation and amortization				2,657
Total depreciation and amortization				26,983
At 30 June 2018 (Unaudited)				
Segment assets	12,288,995	1,458,473	258,874	14,006,342
Reconciliation:				
Corporate and other unallocated assets				1,960,045
Total assets				15,966,387
Segment liabilities	8,417,315	644,775	378,673	9,440,763
Reconciliation:				
Corporate and other unallocated liabilities				2,306,806
Total liabilities				11,747,569
Other segment information				
Investments in associates	–	197,147	–	197,147
Unallocated investments in associates				26,520
Investment in joint ventures	80,658	46,031	–	126,689
Capital expenditure	10,272	44	35,212	45,528
Unallocated amounts				15,509
Total capital expenditure*				61,037

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

3. OPERATING SEGMENT INFORMATION *(continued)*

For the six-month period ended 30 June 2017 (Unaudited)	Urban Water Treatment RMB'000	Water Environment Comprehensive Remediation RMB'000	Rural Water Improvement RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	925,309	108,142	34,145	1,067,596
	925,309	108,142	34,145	1,067,596
Segment results	320,545	18,321	5,361	344,227
Reconciliation:				
Unallocated income and gains				6,829
Corporate and other unallocated expenses				(43,563)
Finance costs				(78,314)
Profit before tax for the period				229,179
Other segment information				
Share of profit and loss of associates	219	(615)	–	(396)
Unallocated share of profit and loss of associates				36,705
Unallocated share of profit and loss of a joint venture				(1,373)
Depreciation and amortisation	4,554	24	–	4,578
Unallocated depreciation and amortisation				1,922
Total depreciation and amortisation				6,500
At 31 December 2017 (Audited)				
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 a joint venture	81,424	47,148	–	128,572
Capital expenditure	38,698	197	34,145	73,040
Unallocated amounts				2,306
Total capital expenditure*				75,346

* Capital expenditure consists of additions to property, plant and equipment and intangible assets during the six-month period ended 30 June 2017.

4. REVENUE

Revenue represents: (1) an appropriate proportion of contract revenue of construction contracts under Build-Operate-Transfer (the "BOT") arrangements, Engineering Procurement Construction (the "EPC") arrangements and other construction service projects, net of tax and government surcharges; (2) the revenue from operation of WTPs, RWTPs, WDPs, STPs or other municipal infrastructures under BOT arrangements, Transfer-Operate-Transfer (the "TOT") arrangements, and the provision of Operation and Maintenance services; and (3) financial income on financial receivables. The amount of each significant category of revenue during the six-month period ended 30 June 2018 is as follows:

	For the six-month period ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from construction services	**931,276**	549,622
Revenue from operating services	**404,485**	298,069
Financial income	**271,726**	219,905
	1,607,487	1,067,596

5. OTHER INCOME AND GAINS

	For the six-month period ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants (note a)	**53,566**	49,806
Interest income from loans to third parties	**10,516**	17,387
Foreign exchange differences, net	**4,291**	3,401
Bank interest income	**3,819**	1,989
Investment income from unlisted equity instrument at fair value through other comprehensive income	**14,325**	–
Other investment income	**126**	904
Rental income less depreciation of investment properties	**282**	204
Others	**539**	331
	87,464	74,022

Note:

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

6. PROFIT BEFORE TAX

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

		For the six-month period ended 30 June	
	Notes	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Cost for construction services		801,206	462,158
Cost for operation services		248,375	183,107
Total of cost of sales		1,049,581	645,265
Depreciation of property, plant and equipment		5,931	4,201
Amortisation of service concession intangible assets		20,545	2,068
Amortisation of other intangible assets		156	103
Write-off of impairment of trade receivables		2,567	4,341
Impairment of trade receivables and other receivables		444	–
Minimum lease payments under operating leases for buildings		4,578	3,718
Auditor's remuneration		650	650
Employee benefit expense (including directors' and chief executive's remuneration):			
Wages, salaries and allowances, social securities and benefits		119,155	84,382
Pension scheme contributions (defined contribution scheme)		12,294	8,873
Equity-settled share option expenses		–	3,694
Total employee benefit expense		131,449	96,949
Losses on disposal of an associate		8,154	–
Bank interest income	5	(3,819)	(1,989)
Interest income from loans to third parties	5	(10,516)	(17,387)
Government grants	5	(53,566)	(49,806)
Investment income from unlisted equity instrument at fair value through other comprehensive income	5	(14,325)	–
Other investment income	5	(126)	(904)
Rental income less depreciation of investment properties	5	(282)	(204)
Foreign exchange differences, net	5	(4,291)	(3,401)

7. FINANCE COSTS

	For the six-month period ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	**162,192**	122,803
Interest on corporate bonds	**61,847**	33,105
	224,039	155,908

8. INCOME TAX EXPENSE

Pursuant to The PRC Enterprise Income Tax Law Implementing Regulations (中華人民共和國企業所得稅法實施條例), most of the subsidiaries established in the PRC, engaged in the operations of wastewater treatment projects, are eligible for tax holiday of a three-year full exemption followed by a three-year half exemption commencing from their respective first year of generating operating revenue (the "3+3 Tax Holiday"). At 30 June 2018, these subsidiaries were already qualified for the 3+3 Tax Holiday or in the process of preparation and submission of the required documents to the respective tax authorities to apply for the 3+3 Tax Holiday.

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

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

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

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong for the six-month period ended 30 June 2018 (six-month period ended 30 June 2017: Nil).

8. INCOME TAX EXPENSE *(continued)*

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

	For the six-month period ended 30 June	
	2018 **RMB'000** **(Unaudited)**	2017 RMB'000 (Unaudited)
Current income tax		
— Mainland China	**35,390**	19,819
Deferred income tax	**32,440**	26,056
Income tax charge for the period	**67,830**	45,875

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:

	For the six-month period ended 30 June			
	2018		2017	
	RMB'000 **(Unaudited)**	**%**	RMB'000 (Unaudited)	%
Profit before tax	**253,343**		229,179	
Income tax charge at the statutory income tax rate	**63,336**	**25.00**	57,295	25.00
Effect of the preferential income tax rate for some entities	**(8,137)**	**(3.21)**	(4,631)	(2.02)
Income not subject to tax	**(5,744)**	**(2.27)**	–	–
Tax effect of tax losses not recognised	**10,227**	**4.04**	6,127	2.67
Tax losses utilised from previous periods	**(524)**	**(0.21)**	(4,160)	(1.81)
Reversal of tax losses recognised in previous periods	**7,298**	**2.88**	–	–
Tax effect of share of profit and loss of associates and a joint venture	**1,374**	**0.54**	(8,756)	(3.82)
Tax charge at the effective rate	**67,830**	**26.77**	45,875	20.02

The share of tax attributable to associates and a joint venture amounting to RMB(17,000) (six-month period ended 30 June 2017: RMB16,753,000) is included in "Share of profit and loss of associates and a joint venture" in the interim condensed consolidated statement of profit or loss and other comprehensive income.

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

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

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

The share option that could have potentially dilutive impact on the basic earnings per share were issued in December 2014. No adjustment has been made to the basic earnings per share amounts presented for the six-month period ended 30 June 2018 in respect of a dilution as the share options outstanding had anti-dilutive effect on the basic earnings per share amounts presented.

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

	For the six-month period ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Earnings:		
Profit for the period attributable to ordinary equity holders of the parent	**183,660**	176,660

	Number of Shares 30 June 2018 (Unaudited)	Number of Shares 30 June 2017 (Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	**2,057,040,000**	2,067,515,000

The Company did not issued any new shares during the six-month period ended 30 June 2018.

10. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2018, the Group acquired property, plant and equipment with an aggregate cost amounting to approximately RMB2,687,000 (six-month period ended 30 June 2017: RMB35,222,000).

The property, plant and equipment with a net book value of approximately RMB807,000 were disposed of by the Group during the six-month period ended 30 June 2018 (six-month period ended 30 June 2017: RMB145,000), resulting in a net loss on disposal of approximately RMB85,000 (six-month period ended 30 June 2017: RMB72,000).

11. FINANCIAL RECEIVABLES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Receivables for service concession arrangements	**7,831,382**	9,087,022
Portion classified as current	**(1,464,819)**	(1,410,155)
Non-current portion	**6,366,563**	7,676,867

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

Receivables for BT arrangements arose from the BT contracts to build municipal infrastructures or infrastructures related to WTPs or STPs and were recognised when the BT customers completed inspection process and entered into repurchase agreements with the Group, according to which, the Group has an unconditional contractual right to receive cash from the BT customers.

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

At 30 June 2018, the Group's financial receivables with a carrying value of RMB5,179,869,000 (31 December 2017: RMB4,982,241,000) were pledged to secure certain bank loans granted to the Group (note 15).

12. TRADE AND BILLS RECEIVABLES

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.

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Trade receivables:		
Receivables for Urban Water Treatment	**551,022**	466,026
Receivables for Water Environment Comprehensive Remediation	**818,801**	679,694
Impairment of trade receivables	**(3,505)**	–
	1,366,318	1,145,720
Bills receivable	**–**	350
	1,366,318	1,146,070

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within 3 months	**614,767**	425,496
4 to 6 months	**171,698**	175,503
7 to 12 months	**192,536**	168,573
Over 12 months	**387,317**	376,148
	1,366,318	1,145,720

12. TRADE AND BILLS RECEIVABLES *(continued)*

An aged analysis of the trade receivables, that are neither individually nor collectively considered to be impaired, is as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Neither past due nor impaired	**1,040,401**	822,699
Past due but not impaired:		
Less than 3 months past due	**112,385**	168,411
4 to 6 months past due	**72,916**	45,796
Over 6 months past due	**140,616**	108,814
	1,366,318	1,145,720

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

Receivables that were past due but not impaired relate to government authorities or agencies that have a good track record with the Group. Based on past experience, the Directors are of the opinion that provision for impairment with forward-looking expected credit loss approach is sufficient. The Group does not hold any collateral or other credit enhancements over these balances.

At 30 June 2018, the Group's trade receivables with a carrying value of approximately RMB245,673,000 (31 December 2017: RMB205,045,000) were pledged to secure certain bank loans granted to the Group (note 15).

13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Cash and bank balances	1,453,691	1,884,488
Less: Pledged deposits	(219,458)	(194,855)
Cash and cash equivalents in the condensed consolidated statement of financial position	1,234,233	1,689,633
Less: Non-pledged time deposits with original maturity of more than three months when acquired	(460,000)	–
Cash and cash equivalents in the condensed consolidated statement of cash flows	774,233	1,689,633
Cash and bank balances denominated in:		
— RMB	1,224,458	1,617,343
— United States dollars	5,362	32,190
— Hong Kong dollars	4,413	40,100
Cash and cash equivalents in the condensed consolidated statement of financial position	1,234,233	1,689,633

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of cash and cash equivalents and pledged deposits in the consolidated statements of financial position approximate to their fair values.

As at 30 June 2018, the Group's pledged deposits with a carrying value of approximately RMB17,672,000 (31 December 2017: RMB23,046,000) were pledged to secure certain bank loans granted to the Group (note 15).

14. 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.

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Bills payable (note (a))	209,098	192,319
TOT payables (note (b))	3,985	3,985
Trade payables	1,387,912	1,094,205
	1,600,995	1,290,509
Less: non-current portion	(10,356)	(2,851)
Current portion	1,590,639	1,287,658

Notes:

(a) The Group's bills payable are secured by the pledged deposits amounting to RMB163,894,000 as at 30 June 2018 (31 December 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 each reporting period.

An aged analysis of the Group's trade and bills payables at the end of each reporting period is as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within 3 months	354,022	628,760
4 months to 6 months	615,921	218,935
7 months to 12 months	216,736	186,239
Over 12 months	414,316	256,575
	1,600,995	1,290,509

The carrying amounts of the current portion of the trade and bills payables approximate to their fair values as at 30 June 2018.

15. INTEREST-BEARING BANK BORROWINGS

	30 June 2018			31 December 2017		
	Effective interest rate (%)	Maturity	RMB'000 (Unaudited)	Effective interest rate (%)	Maturity	RMB'000 (Audited)
Current						
Bank loans						
— unsecured	4.40–4.75	2018–2019	270,323	3.97–5.66	2018	500,000
Bank loans						
— secured	4.35–6.90	2018–2019	1,640,850	3.86–5.66	2018	1,734,607
Current portion of long term bank loans — secured	4.75–8.91	2018–2019	713,929	4.41–6.37	2018	571,220
			2,625,102			2,805,827
Non-current						
Long term other loans						
— unsecured	1.2	2026	30,000	1.2	2026	30,000
Long term other loans						
— secured	2.8	2026	40,000	2.8	2026	40,000
Long term bank loans						
— secured	4.75–6.37	2019–2045	3,985,171	4.41–6.37	2019–2045	3,519,235
			4,055,171			3,589,235
			6,680,273			6,395,062
Interest-bearing bank and other borrowings denominated in						
— RMB			6,509,269			6,172,957
— Hong Kong dollars			113,861			104,489
— US dollars			57,143			117,616
			6,680,273			6,395,062

15. INTEREST-BEARING BANK BORROWINGS *(continued)*

The above secured bank borrowings are secured by certain assets with carrying values as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Property, plant and equipment	**20,015**	20,929
Financial receivables (note 11)	**5,179,869**	4,982,241
Trade and bills receivables (note 12)	**245,673**	205,045
Pledged deposits (note 13)	**17,672**	23,046
Service concession intangible assets	**445,162**	329,479

The Group's bank borrowings of RMB810,859,000 (31 December 2017: RMB493,815,000) were guaranteed by the investments in certain subsidiaries.

The Group's bank borrowings of RMB400,000,000 (31 December 2017: RMB250,000,000) were guaranteed by Mr. Zhao Juanxian, who is the controlling shareholder of the Company (note 21).

16. DIVIDEND

During the current interim period, a final dividend of RMB41,122,000 for the year ended 31 December 2017, at RMB2.0 cents per ordinary share based on 2,056,105,000 shares as at 14 June 2018, was approved by the annual general meeting and declared to the shareholders of the Company.

The board of directors did not recommend the payment of an interim dividend for the six-month period ended 30 June 2018.

17. BUSINESS COMBINATION

On 1 January 2018, Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd. (重慶康達環保產業(集團)有限公司) ("Chongqing Kangda"), an indirectly wholly-owned subsidiary of the Company, acquired a 100% interest in Sichuan Weiyuan Hefeng Bioengineering Co., Ltd. ("Weiyuan Hefeng") at a total consideration of approximately RMB100,265,000, of which RMB4,850,000 and RMB34,593,000 have been paid during the year ended 31 December 2017 and the six-month period ended 30 June 2018, respectively. RMB60,822,000 remained unsettled on 30 June 2018.

The above acquisition was made as part of the Group's strategy to expand its market geographic coverage in wastewater treatment industry, water distribution industry and other municipal infrastructures, and increase its market share in these industry.

The fair values of the identifiable assets and liabilities of the subsidiary acquired during the period as at the date of acquisition was as follows:

	Weiyuan Hefeng RMB'000 (Unaudited)
Cash and cash equivalents	1,644
Trade and bills receivables	6,203
Prepayments, deposits and other receivables	19,705
Inventories	90
Property, plant and equipment	14
Service concession intangible assets	98,479
Trade and bills payables	(1,553)
Other payables and accruals	(1,748)
Tax payable	(327)
Current portion of interest-bearing bank and other borrowings	(933)
Non-current portion of interest-bearing bank and other borrowings	(5,467)
Deferred tax liabilities	(15,842)
Total identifiable net assets at fair value	100,265
Purchase consideration at fair value	100,265

None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

17. BUSINESS COMBINATION *(continued)*

The transaction costs related to these acquisitions have been expensed and are included in administrative expenses in profit or loss.

	Weiyuan Hefeng RMB'000 (Unaudited)
An analysis of the cash flows in respect of the acquisition is as follows:	
Cash consideration paid during the period	(34,593)
Cash and cash equivalents acquired	1,644
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(32,949)
Transaction costs of the acquisition included in cash flows from operating activities	–

Since the acquisition, Weiyuan Hefeng contributed approximately RMB5,247,000 to the Group's revenue and approximately RMB315,000 to the Group's profit for the six-month period ended 30 June 2018.

During the period, the Group also settled certain outstanding consideration by cash in relation to the business combinations for the year ended 31 December 2017 amounting to RMB54,420,000.

18. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with terms ranging from one to three years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 June 2018 and 31 December 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within one year	**1,229**	1,175
In the second to fifth years, inclusive	**1,614**	2,243
	2,843	3,418

18. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

The Group leases certain office properties and land property under operating lease arrangements with leases negotiated for terms ranging from 1 to 21 years (2017: 1 to 22 years).

At 30 June 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within one year	**6,387**	5,427
In the second to fifth years, inclusive	**8,897**	6,793
Over five years	**1,903**	1,962
	17,187	14,182

19. CONTINGENT LIABILITIES

As at 30 June 2018 the Group did not have any significant contingent liabilities.

20. COMMITMENTS

In addition to the operating lease commitments detailed in note 18(b) above, the Group had the following commitments:

(a) Capital commitments

The Group had the following capital commitments at the end of each reporting period:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Contracted, but not provided for:	**300,981**	413,574

(b) The Group had the following commitments with respect of service concession arrangements at the end of each reporting period:

Group

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Contracted, but not provided for	**3,238,407**	2,761,838

21. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Certain expenses of the Group paid by non-controlling shareholders of:		
Huizhou Kangda * (i)	19,579	9,921
Seven Guohuan subsidiaries* (ii)	–	743
Pingdingshan City Bay	–	316
Acquisition of equity interests of the subsidiaries from non-controlling shareholders of:		
Shandong Fengmin	–	21,700
Xinzheng Xinkang	–	17,600
Weifang Shuangjie	–	1,796
Qitaihe	5,000	1,479
Certain expenses paid by the Group for non-controlling shareholders of:		
Xinzhongzhou Water and Xinzheng Xinkang	523	11,917
Jiaoling Kangda	506	–
Seven Guohuan Subsidiaries	–	1,463
Weihai Kangda	–	204
Certain loans paid by the Group for an associate and a joint venture:		
Zhongyuan Kangda	85,055	–
Jiangxi Kanggan	6,003	–
Construction services provided to associates and a joint venture:		
Zhongyuan Kangda	181,583	165,169
Leping Hehu	–	114,081
Fuzhou Fuhe	48,671	46,054
Jiangxi Kanggan	2,680	10,345
Construction and design services provided by associates:		
Eastern Sludge Treatment	10,104	102,252
Sichuan Zhonghuan	–	9,505
Construction services provided by a non-controlling shareholder of:		
Jiaoling Kangda	459	–

21. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

* (i) Huizhou Kangda Yingzhihuang Water Co., Ltd. (惠州康達英之皇水務有限公司) ("Huizhou Kangda") is a non-wholly-owned subsidiary of the Group.

(ii) Dong'e County Guohuan Sewage Treatment Co., Ltd. (東阿縣國環污水處理有限公司), Liaocheng Jiaming Guohuan Sewage Treatment Co., Ltd. (聊城嘉明國環污水處理有限公司), Linqing City Guohuan Sewage Treatment Co., Ltd. (臨清市國環污水處理有限公司), Jining Guohuan Sewage Treatment Co., Ltd. (濟寧市國環污水處理有限公司), Yanggu County Guohuan Sewage Treatment Co., Ltd. (陽穀縣國環污水處理有限公司), Liaocheng Municipal Guohuan Sewage Treatment Co., Ltd. (聊城市國環污水處理有限公司), and Shen County Guohuan Sewage Treatment Co., Ltd. (莘縣國環污水處理有限公司) are collectively known as "Seven Guohuan subsidiaries".

The Group's bank borrowings of RMB400,000,000 (31 December 2017: RMB250,000,000) were guaranteed by Mr. Zhao Juanxian, who is the controlling shareholder of the Company (note 15).

(b) Outstanding balances with related parties

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Amounts due to non-controlling shareholders of:		
Seven Guohuan subsidiaries	**65,182**	65,182
Pingdingshan City Bay	**55,391**	55,391
Qitaihe	**12,220**	18,575
Hebi Kangda	**12,000**	12,000
Jilin Kangda	**11,000**	11,000
Huizhou Kangda	**29,500**	9,921
Xinzhongzhou Water and Xinzheng Xinkang	**2,510**	2,510
Jiaoling Kangda	**459**	–
Amounts due to associates:		
Eastern Sludge Treatment	**73,125**	72,252
Sichuan Zhonghuan	**–**	5,930
Amounts due from non-controlling shareholders of:		
Xinzhongzhou Water and Xinzheng Xinkang	**15,308**	14,785
Pingdingshan City Bay	**10,649**	10,649
Seven Guohuan subsidiaries	**3,192**	3,192
Hebi Kangda	**2,950**	2,950
Jiaoling Kangda	**506**	–
Weihai Kangda	**204**	204
Amounts due from associates:		
Zhongyuan Kangda	**421,260**	165,169
Leping Hehu	**86,970**	114,081
Jiangxi Kanggan	**6,464**	–
Amounts due from a joint venture:		
Tianqiyuan	**22,575**	22,575

21. RELATED PARTY TRANSACTIONS *(continued)*

(c) Compensation of key management personnel of the Group

	For the six-month period ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short term employee benefits	**919**	767
Equity-settled share option expenses	**–**	123
Post-employment benefits	**–**	23
Total compensation paid to key management personnel	**919**	913

22. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial assets as at the end of each reporting period are as follows:

	30 June 2018	31 December 2017
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Financial assets carried at amortised cost:		
Financial receivables, non-current portion	**6,366,563**	7,676,867
Financial receivables, current portion	**1,464,819**	1,410,155
Trade and bills receivables	**1,366,318**	1,146,070
Prepayments, deposits and other receivables	**407,883**	296,011
Long-term prepayments and other receivables	**260,000**	260,000
Pledged deposits	**219,458**	194,855
Cash and cash equivalents	**1,234,233**	1,689,633
Equity instruments at fair value through other comprehensive income	**510,000**	–
Available-for-sale investments	**–**	621,000
Total	**11,829,274**	13,294,591
Total current	**4,692,711**	4,736,724
Total non-current	**7,136,563**	8,557,867

(i) As required by IFRS 15, part of the financial receivables (RMB: 1,744,281,000) was reclassified to contract assets, resulting in a significant variance on the financial position of financial receivables between 30 June 2018 and 31 December 2017.

22. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial liabilities as at the end of each reporting period are as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Financial liabilities at amortised cost:		
Trade and bills payables	**1,590,639**	1,287,658
Long-term trade payables	**10,356**	2,851
Financial liabilities included in other payables and accruals	**509,073**	442,441
Non-current interest bearing bank borrowings	**4,055,171**	3,589,235
Current interest bearing bank borrowings	**2,625,102**	2,805,827
Non-current corporate bonds	**1,247,672**	948,841
Current corporate bonds	**900,000**	1,100,000
Total	**10,938,013**	10,176,853
Total current	**5,624,814**	5,635,926
Total non-current	**5,313,199**	4,540,927

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values are as follows:

	Carrying amounts		Fair values	
	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Financial assets:				
Available-for-sale financial investments	**–**	621,000	**–**	621,000
Equity instruments at fair value through other comprehensive income	**510,000**	–	**510,000**	–
Prepayments, deposits and other receivables, non-current portion	**273,175**	265,200	**291,369**	277,759
Financial receivables, non-current portion	**6,366,563**	7,676,867	**6,517,403**	7,824,974
	7,149,738	8,563,067	**7,318,772**	8,723,733
Financial liabilities:				
Trade and bills payables, non-current portion	**10,356**	2,851	**9,872**	2,718
Interest-bearing bank and other borrowings, non-current portion	**4,055,171**	3,589,235	**4,127,752**	3,612,408
Corporate bonds	**2,147,672**	2,048,841	**2,147,672**	2,048,841
	6,213,199	5,640,927	**6,285,296**	5,663,967

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, the current portion of financial receivables, the current portion of trade and bills payables, the current portion of financial assets included in prepayments, deposits and other receivables, the current portion of financial liabilities included in other payables and accruals, the current portion of interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value disclosure of financial instruments. The finance manager reports directly to the chief financial officer. At the end of the year, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of financial receivables, prepayments, deposits and other receivables, trade and bills payables, interest-bearing bank and other borrowings, and corporate bonds have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risks for trade and bills payables, interest-bearing bank and other borrowings, and corporate bonds as at the end of the year were assessed to be insignificant.

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity instruments at fair value through other comprehensive income	–	510,000	–	510,000

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale financial investments	–	621,000	–	621,000

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy *(continued)*

Assets for which fair values are disclosed:

As at 30 June 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Prepayments, deposits and other receivables, non-current portion	–	291,369	–	291,369
Financial receivables, non-current portion	–	6,517,403	–	6,517,403
	–	6,808,772	–	6,808,772

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Prepayments, deposits and other receivables, non-current portion	–	277,759	–	277,759
Financial receivables, non-current portion	–	7,824,974	–	7,824,974
	–	8,102,733	–	8,102,733

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy *(continued)*

Liabilities for which fair values are disclosed:

As at 30 June 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Trade and bills payables, non-current portion	–	9,872	–	9,872
Interest-bearing bank and other borrowings, non-current portion	–	4,127,752	–	4,127,752
Corporate bonds	–	2,147,672	–	2,147,672
	–	6,285,296	–	6,285,296

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Trade and bills payables, non-current portion	–	2,718	–	2,718
Interest-bearing bank and other borrowings, non-current portion	–	3,612,408	–	3,612,408
Corporate bonds	–	2,048,841	–	2,048,841
	–	5,663,967	–	5,663,967

24. SUBSEQUENT EVENTS

On 25 July 2018, the Group entered into the equity transfer agreements with Jingfeng Environmental Protection Co., Ltd. (金風環保有限公司), for the disposal of 100% equity interests in Ningguo Chengjian Sewage Treatment Co., Ltd., Anhui Province Chengjian Huashan Sewage Treatment Co., Ltd., Yanggu County Guohuan Sewage Treatment Co., Ltd. and Liaocheng Municipal Guohuan Sewage Treatment Co., Ltd., at an aggregate consideration of RMB225,907,000, of which RMB203,316,000 has been paid before 23 August 2018. Upon completion of the disposals, these companies will cease to be subsidiaries of the Group.

On 10 August, 2018, the Group received a net cash amount of RMB330,000,000 through the issuance of asset-backed securities (the "ABS") of RMB360,000,000 in the Shanghai Stock Exchange. The Group invested RMB30,000,000 in such ABS as a deferred ABS holder.

25. APPROVAL OF ISSUANCE OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were authorised for issue by the board of directors on 23 August 2018.