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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 6136)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

HIGHLIGHTS

- Revenue was approximately RMB2,523.9 million, representing an increase of approximately 31% as compared with that of last year.
- Profit attributable to owners of the parent was approximately RMB414.4 million, representing an increase of approximately 24% as compared with that of last year.
- Basic and diluted earnings per share attributable to ordinary equity holders of the parent for the year was RMB20.05 cents.
- As at 31 December 2017, total daily treatment capacity was 4,113,350 tonnes, representing an increase of approximately 22% as compared with that of 3,363,350 tonnes as at 31 December 2016.
- The Board recommends a final dividend of RMB2.0 cents per share for the year ended 31 December 2017.

The board (the "Board") of directors (the "Directors") of Kangda International Environmental Company Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively as the "Group") for the year ended 31 December 2017 together with the comparative figures for the year ended 31 December 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	3	**2,523,940**	1,926,502
Cost of sales		**(1,570,619)**	(1,103,173)
Gross profit		**953,321**	823,329
Other income and gains	4	**190,667**	127,101
Selling and distribution expenses		**(11,950)**	(11,044)
Administrative expenses		**(278,898)**	(235,794)
Other expenses		**(7,786)**	(23,493)
Finance costs	5	**(354,880)**	(269,468)
Share of profits and losses of:			
Associates		**43,730**	28,076
Joint ventures		**2,592**	(1,315)
PROFIT BEFORE TAX	6	**536,796**	437,392
Income tax expense	7	**(109,187)**	(91,400)
PROFIT FOR THE YEAR		**427,609**	345,992
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Share of other comprehensive income of an associate, net of tax		**–**	14,395
Change in fair value of available-for-sale financial investments, net of tax		**99,450**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**527,059**	360,387
Profit attributable to:			
Owners of the parent	8	**414,448**	334,577
Non-controlling interests		**13,161**	11,415
		427,609	345,992
Total comprehensive income attributable to:			
Owners of the parent		**513,898**	348,972
Non-controlling interests		**13,161**	11,415
		527,059	360,387
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted (expressed in RMB per share)	8	**20.05 cents**	16.18 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**152,209**	100,082
Investment properties		**11,226**	1,592
Investments in associates		**228,908**	620,463
Investments in joint ventures		**128,572**	23,185
Available-for-sale financial investments		**621,000**	–
Service concession intangible assets		**914,503**	276,616
Other intangible assets		**3,737**	3,018
Goodwill		**60,219**	60,219
Financial receivables	*9*	**7,676,867**	5,786,190
Deferred tax assets		**81,652**	53,715
Prepayments, deposits and other receivables		**393,254**	292,964
Total non-current assets		**10,272,147**	7,218,044
CURRENT ASSETS			
Inventories		**11,659**	36,593
Construction contracts	*10*	**80,485**	188,370
Financial receivables	*9*	**1,410,155**	1,268,065
Trade and bills receivables	*11*	**1,146,070**	765,208
Prepayments, deposits and other receivables		**430,590**	758,042
Pledged deposits		**194,855**	92,444
Available-for-sale financial investments		**–**	158,400
Cash and cash equivalents		**1,689,633**	675,285
Total current assets		**4,963,447**	3,942,407
CURRENT LIABILITIES			
Trade and bills payables	*12*	**1,287,658**	910,396
Other payables and accruals		**514,524**	263,125
Deferred income		**25,450**	16,133
Interest-bearing bank and other borrowings	*13*	**2,805,827**	2,360,092
Corporate bonds	*14*	**1,100,000**	300,000
Tax payable		**40,397**	19,839
Total current liabilities		**5,773,856**	3,869,585
NET CURRENT (LIABILITIES)/ASSETS		**(810,409)**	72,822
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,461,738**	7,290,866

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 31 December 2017

	Notes	**2017** **RMB'000**	2016 RMB'000
NON-CURRENT LIABILITIES			
Trade payables	*12*	**2,851**	6,304
Interest-bearing bank and other borrowings	*13*	**3,589,235**	2,160,917
Corporate bonds	*14*	**948,841**	946,825
Deferred income		**9,317**	17,833
Deferred tax liabilities		**704,633**	465,820
Total non-current liabilities		**5,254,877**	3,597,699
Net assets		**4,206,861**	3,693,167
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**16,392**	16,444
Reserves		**3,986,922**	3,530,541
		4,003,314	3,546,985
Non-controlling interests		**203,547**	146,182
Total equity		**4,206,861**	3,693,167

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.1 BASIS OF PREPARATION

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

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

Going concern

As at 31 December 2017, the Group's current liabilities exceeded its current assets by approximately RMB810,409,000 (31 December 2016: net current assets: RMB72,822,000). The directors of the Company have considered the Group's available sources of funds as follows:

- Unutilised banking facilities of approximately RMB49,702 million of the Group as at 31 December 2017. The directors of the Company are confident that the above mentioned banking facilities could be renewed upon expiration based on the Group's past experience and good credit standing;

- Unutilised Commercial Paper and Super & Short-term Commercial Paper facilities of total RMB1,900 million of the Group as at 31 December 2017; and

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

The directors of the Company believe that the Group has adequate resources to continue operations for the foreseeable future of not less than 12 months from the approval date of these consolidated financial statements. The directors of the Company therefore are of the opinion that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

1.1 BASIS OF PREPARATION (continued)

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

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

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

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Annual Improvements 2014-2016 Cycle	*Disclosure of Interests in Other Entities Clarification of the scope of disclosure requirements in IFRS 12*

The nature and the impact of the amendments are described below:

(a) Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

(b) Amendments to IAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to IFRS 12 clarify that the disclosure requirements in IFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's consolidated financial statements as the Group has no an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that are classified as held for sale as at 31 December 2017.

2. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

Segment assets exclude investment properties, 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.

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

2. OPERATING SEGMENT INFORMATION (continued)

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

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

2. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2016	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	1,666,608	144,498	115,396	1,926,502
	1,666,608	144,498	115,396	1,926,502
Segment results	587,809	35,503	20,425	643,737
Reconciliation:				
Unallocated income and gains				14,494
Corporate and other unallocated expenses				(81,880)
Unallocated finance costs				(138,959)
Profit before tax				437,392
Segment assets	9,395,807	766,667	169,260	10,331,734
Reconciliation:				
Corporate and other unallocated assets				828,717
Total assets				11,160,451
Segment liabilities	5,921,678	125,048	118,904	6,165,630
Reconciliation:				
Corporate and other unallocated liabilities				1,301,654
Total liabilities				7,467,284
Other segment information				
Investments in associates	135,441	–	–	135,441
Unallocated investments in associates				485,022
Investment in a joint venture	23,185	–	–	23,185
Share of profit and loss of associates	14,973	–	–	14,973
Share of profit and loss of unallocated investments in associates				13,103
Share of profit and loss of a joint venture	(1,315)	–	–	(1,315)
Depreciation and amortization	4,681	–	–	4,681
Unallocated depreciation and amortization				3,528
Total depreciation and amortization				8,209
Capital expenditure	5,031	61	115,396	120,488
Unallocated amounts				4,975
Total capital expenditure*				125,463

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

2. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2017	2016
	RMB'000	*RMB'000*
Mainland China	**2,523,940**	1,926,502

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

(b) Non-current assets

	2017	2016
	RMB'000	*RMB'000*
Mainland China	**10,190,495**	7,164,329

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

Information about major customers

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

Year ended 31 December 2017

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

Year ended 31 December 2016

	Urban Water Treatment	Total
	RMB'000	*RMB'000*
Customer B	208,331	208,331
Customer C	156,368	156,368
	364,699	364,699

3. REVENUE

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

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

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

Revenue represents: (1) an appropriate proportion of contract revenue of construction contracts under BOT arrangements, BT arrangements, EPC arrangements and other construction service projects, net of tax and government surcharges; (2) the revenue from operation of WTPs, RWTPs, WDPs, STPs or other municipal infrastructure under BOT arrangements and TOT arrangements and the provision of Operation and Maintenance services; and (3) financial income on financial receivables. The amount of each significant category of revenue during the year is as follows:

	2017	2016
	RMB'000	*RMB'000*
Revenue from construction services	**1,355,980**	980,267
Revenue from operating services	**695,044**	535,706
Financial income	**472,916**	410,529
	2,523,940	1,926,502

4. OTHER INCOME AND GAINS

	2017	2016
	RMB'000	*RMB'000*
Government grants *(note (a))*	**124,351**	104,134
Foreign exchange differences	**22,213**	–
Interest income from loans to third parties	**21,893**	8,473
Bank interest income	**11,199**	8,688
Investment income from reclassification from investment in an associate to available-for-sale financial investments	**7,398**	–
Investment income from available-for-sale financial investments and structured deposit	**1,274**	3,892
Rental income less depreciation of investment properties	**533**	326
Gain on disposal of items of property, plant and equipment, net	**–**	37
Others	**1,806**	1,551
	190,667	127,101

Note:

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

5. FINANCE COSTS

	2017 *RMB'000*	2016 *RMB'000*
Interest-bearing bank and other borrowings	**276,024**	215,565
Interest on corporate bonds	**78,856**	53,903
	354,880	269,468

6. PROFIT BEFORE TAX

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

	Notes	2017 *RMB'000*	2016 *RMB'000*
Cost for construction services		**1,174,665**	762,179
Cost for operation services		**395,954**	340,994
Total cost of services		**1,570,619**	1,103,173
Depreciation of property, plant and equipment		**9,258**	7,437
Amortization of service concession intangible assets		**16,444**	313
Amortization of other intangible assets		**241**	201
Write-off of impairment of trade receivables	*11*	**4,341**	–
Provision for impairment of other receivables		**–**	1,747
Minimum lease payments under operating leases for buildings		**6,977**	5,613
Auditor's remuneration		**3,000**	2,800
Employee benefit expense (including directors' remuneration):			
Wages, salaries and allowances, social securities and benefits		**187,363**	151,329
Pension scheme contributions (defined contribution scheme)		**20,774**	16,275
Equity-settled share option expenses		**7,115**	15,857
Total employee benefit expense		**215,252**	183,461
Operating lease income		**(791)**	(584)
Less: Depreciation of investment properties		**258**	258
Rental income less depreciation of investment properties	*4*	**(533)**	(326)
Bank interest income	*4*	**(11,199)**	(8,688)
Government grants	*4*	**(124,351)**	(104,134)
Interest income from loans to third parties	*4*	**(21,893)**	(8,473)
Investment income from available-for-sale financial investments and structured deposit	*4*	**(1,274)**	(3,892)
Investment income from reclassification from investment in an associate to available-for-sale financial investments	*4*	**(7,398)**	–
Loss/(gain) on disposal of items of property, plant and equipment, net		**802**	(37)
Foreign exchange differences, net		**(22,213)**	4,508

7. INCOME TAX EXPENSE

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

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

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

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

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

	2017	2016
	RMB'000	*RMB'000*
Current		
— Mainland China	**70,704**	37,426
Deferred	**38,483**	53,974
Total tax charge for the year	**109,187**	91,400

7. INCOME TAX EXPENSE (continued)

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

	2017		2016	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax	**536,796**		437,392	
Income tax charge at the statutory income tax rate	**134,199**	**25.0**	109,348	25.0
Effect of the preferential income tax rate for some entities	**(9,408)**	**(1.8)**	(27,453)	(6.3)
Expenses not deductible for tax purposes	**3,714**	**0.7**	3,474	0.8
Tax effect of tax losses not recognised	**4,131**	**0.8**	13,139	3.0
Tax losses utilised from previous periods	**(10,019)**	**(1.9)**	(418)	(0.1)
Tax effect of share of profits and losses of associates and joint ventures	**(13,430)**	**(2.5)**	(6,690)	(1.5)
Tax charge at the effective rate	**109,187**	**20.3**	91,400	20.9

The share of tax attributable to associates and joint ventures amounting to RMB8,228,000 (2016: RMB6,192,000) is included in "Share of profits and losses of associates" and "Share of profit and loss of joint ventures" in the profit or loss.

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

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

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

The share options that could have potentially dilutive impact on the basic earnings per share amount were issued in December 2014. No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2017 and 2016 in respect of a dilution as the share options outstanding had anti-dilutive effect on the basic earnings per share amounts presented.

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

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

	2017	2016
	RMB'000	*RMB'000*
Earnings:		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	**414,448**	334,577

	2017	2016
	Number of shares	*Number of shares*
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	**2,067,506,000**	2,067,515,000

9. FINANCIAL RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Receivables for service concession arrangements	**9,087,022**	7,044,612
Receivables for BT arrangements	**–**	9,643
Net financial receivables	**9,087,022**	7,054,255
Portion classified as current assets	**(1,410,155)**	(1,268,065)
Non-current portion	**7,676,867**	5,786,190

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

Receivables for BT arrangements arose from the BT contracts to build municipal infrastructure or infrastructure related to WTPs and were recognised when the BT customers completed the 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 the 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.

As at 31 December 2017, the Group's financial receivables with a carrying value of RMB4,982,241,000 (2016: RMB3,913,773,000) were pledged to secure certain bank loans granted to the Group (note 13).

10. CONSTRUCTION CONTRACTS

	2017	2016
	RMB'000	*RMB'000*
Contract costs incurred plus recognised profits less recognised losses to date	**967,489**	565,001
Less: Progress billings	**(887,004)**	(376,631)
Gross amount due from contract customers for contract work	**80,485**	188,370

11. 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 for individual customers of construction service is considered on a case-by-case basis. Trade receivables are non-interest-bearing.

	2017	2016
	RMB'000	*RMB'000*
Trade receivables:		
Receivables for urban water treatment	**466,026**	403,824
Receivables for water environment comprehensive remediation	**679,694**	346,310
	1,145,720	750,134
Bills receivable	**350**	15,074
	1,146,070	765,208

An ageing 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 year is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**425,496**	352,030
4 to 6 months	**175,503**	47,512
7 to 12 months	**168,573**	297,165
Over 12 months	**376,148**	53,427
	1,145,720	750,134

11. TRADE AND BILLS RECEIVABLES (continued)

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

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**822,699**	492,461
Past due but not impaired:		
Less than 3 months past due	**168,411**	106,473
4 to 6 months past due	**45,796**	47,512
Over 6 months past due	**108,814**	103,688
	1,145,720	750,134

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 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 are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Movements in the provision for impairment of trade receivables are as follows:

	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**–**	–
Impairment losses recognised *(note (a))*	**4,341**	–
Impairment losses written off *(note (a))*	**(4,341)**	–
At end of the year	**–**	–

Note:

(a) During the year ended 31 December 2017, the Group entered into a supplemental agreement with the customer of Yucheng BT project on acceleration of cash settlement of BT receivables, according to which the customer was granted a discount totalling RMB4,341,000.

At 31 December 2017, the Group's trade receivables with a carrying value of RMB205,045,000 (2016: RMB126,559,000) were pledged to secure certain bank loans granted to the Group (note 13).

12. TRADE AND BILLS PAYABLES

Trade and bills payables are non-interest-bearing. The credit periods granted by each individual supplier are on a case-by-case basis and set out in the supplier contracts.

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

	2017	2016
	RMB'000	*RMB'000*
Bills payable *(note (a))*	**192,319**	117,848
TOT payables *(note (b))*	**3,985**	6,985
Trade payables	**1,094,205**	791,867
	1,290,509	916,700
Less: Non-current portion	**2,851**	6,304
Current portion	**1,287,658**	910,396

Notes:

(a) As at 31 December 2017, the Group's bills payable were secured by the pledged deposits amounting to RMB137,023,000 (2016: RMB59,427,000).

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

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

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**628,760**	414,965
4 months to 6 months	**218,935**	145,824
7 months to 12 months	**186,239**	140,205
Over 12 months	**256,575**	215,706
	1,290,509	916,700

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

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2017			2016		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Current						
Bank loans						
— unsecured	**3.97-5.66**	**2018**	**500,000**	3.92-4.50	2017	780,000
Bank loans						
— secured	**3.86-5.66**	**2018**	**1,734,607**	3.30-4.84	2017	789,639
Current portion of long term bank loans — secured	**4.41-6.37**	**2018**	**571,220**	4.75-8.00	2017	790,453
			2,805,827			2,360,092
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**	–	–	–
Long term bank loans						
— secured	**4.41-6.37**	**2019-2045**	**3,519,235**	4.75-8.00	2018-2033	2,130,917
			3,589,235			2,160,917
			6,395,062			4,521,009
Interest-bearing bank and other borrowings denominated in						
— RMB			**6,172,957**			4,326,864
— Hong Kong dollars			**104,489**			138,649
— US dollars			**117,616**			55,496
			6,395,062			4,521,009

	2017	2016
	RMB'000	*RMB'000*
Analysed into:		
Bank and other borrowings repayable:		
Within one year	**2,805,827**	2,360,092
In the second year	**790,966**	463,099
In the third to fifth years, inclusive	**1,520,220**	1,037,314
Beyond five years	**1,278,049**	660,504
	6,395,062	4,521,009

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

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

	2017	2016
	RMB'000	*RMB'000*
Property, plant and equipment	**20,929**	21,283
Investment properties	**–**	1,592
Financial receivables *(note 9)*	**4,982,241**	3,913,773
Trade and bills receivables *(note 11)*	**205,045**	126,559
Pledged deposits	**23,046**	24,517
Service concession intangible assets	**329,479**	–

The Group's bank borrowings of RMB21,700,000 (2016: RMB50,700,000) were secured by the investment in the subsidiary, Beijing Chang Sheng Si Yuan Environmental Protection Technology Co., Ltd. (北京長盛思源環保科技有限公司). The Group's bank borrowings of RMB62,208,000 (2016: RMB69,120,000) were secured by the investment in the subsidiary, Dong'e County Guohuan Sewage Treatment Co., Ltd. (東阿縣國環污水處理有限公司). The Group's bank borrowings of RMB112,000,000 (2016: RMB91,000,000) were secured by the investment in the subsidiary, Guangrao Kangda Environmental Protection Water Co., Ltd. (廣饒康達環保水務有限公司). The Group's bank borrowings of RMB41,026,000 (2016: Nil) were secured by the investment in the subsidiary, Linqing City Guohuan Sewage Treatment Co., Ltd. (臨清市國環污水處理有限公司). The Group's bank borrowings of RMB 43,870,000 (2016: Nil) were secured by the investment in the subsidiary, Liaocheng Jiaming Guohuan Sewage Treatment Co., Ltd. (聊城嘉明國環污水處理有限公司). The Group's bank borrowings of RMB44,500,000 (2016: Nil) were secured by the investment in the subsidiary, Qishan County Dayuan Sewage Treatment Co., Ltd (岐山縣大源污水處理有限責任公司). The Group's bank borrowings of RMB49,211,000 (2016: Nil) were secured by the investment in the subsidiary, Qitaihe Wanxinglong Water Co., Ltd (七台河萬興隆水務有限責任公司). The Group's bank borrowings of RMB141,000,000 (2016: Nil)were secured by the investment in the subsidiary, Wenzhou Chuangyuan Water Co., Ltd. (溫州市創源水務有限公司).

The Group's bank borrowings of RMB250,000,000 (2016: RMB50,000,000) were secured by Mr. Zhao Juanxian, who is the controlling shareholder of the Company.

14. CORPORATE BONDS

A corporate bond with a principal amount of RMB200,000,000 was issued by Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, to certain institutional investors on 13 July 2017 pursuant to the subscription agreement dated 7 July 2017, which is due on 10 April 2018 and bears interest at the rate of 5.6% per annum.

A corporate bond with a principal amount of RMB300,000,000 was issued by Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, to certain institutional investors on 10 August 2017 pursuant to the subscription agreement dated 24 July 2017, which is due on 14 August 2018 and bears interest at the rate of 6.2% per annum.

A corporate bond with a principal amount of RMB300,000,000 was issued by Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, to certain institutional investors on 14 September 2017 pursuant to the subscription agreement dated 7 September 2017, which is due on 15 June 2018 and bears interest at the rate of 6.5% per annum.

A corporate bond with a principal amount of RMB300,000,000 was issued by Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, to certain institutional investors on 19 December 2017 pursuant to the subscription agreement dated 12 December 2017, which is due on 16 September 2018 and bears interest at the rate of 7.0% per annum.

As at 31 December 2017, the carrying amount of the bond issued by Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, was RMB59,704,000, which is due on 1 July 2019 and bears interest at the rate of 5.8% per annum.

As at 31 December 2017, the carrying amount of the bond issued by the Group on 18 December 2015 was RMB889,137,000, with a maturity date on 18 December 2022 and an interest rate at 5.5% per annum.

	2017	2016
	RMB'000	*RMB'000*
Unsecured short term corporate bonds	**1,100,000**	300,000
Unsecured long term corporate bonds	**948,841**	946,825
	2,048,841	1,246,825

15. EVENTS AFTER THE REPORTING PERIOD

On 27 March 2018, the board of directors of the Company recommends a final dividend of RMB2.0 cents per ordinary share (2016: RMB1.6 cents per ordinary share) for the year ended 31 December 2017. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

MANAGEMENT DISCUSSION AND ANALYSIS

DEVELOPMENT STRATEGIES AND FUTURE DEVELOPMENT

In the year of 2017, the state continues to strengthen its regulation on water environmental protection industry with the introduction of comprehensive reform on the environment assessment system, comprehensive implementation of river chief system, and the approval and formal implementation of a series of environmental protection regulations such as the introduction of Green Tax (環保税) and the new Water Pollution Prevention and Control Law (水污染防治法) and regular supervision carried out by the central environmental protection inspector which enforces the eco-responsibility of local governments.

In the first half of 2017, according to the national transaction statistics of Public-Private Partnership (the "PPP") projects, central state-owned enterprises accounted for 3.12 trillion or 52% of the transaction volume, while local state-owned enterprises and private enterprises accounted for 22% and 25%, respectively. Therefore, central state-owned enterprises still play a major role in nationwide PPP projects. At the end of 2017, the Central-government commences its regulation on PPP investments. In particular, Cai Ban Jin [2017] No.92 (財辦金[2017] 92號) and Circular of Guo Zi Fa Cai Guan [2017] No. 192 (國資發財管[2017] 192號文) were issued to prevent reckless investment of central state-owned enterprises on PPP projects. Although this policy cooled down the participation in PPP projects in the short term, it benefits the substantial development of PPP in the long term, and provides more rooms for development of private enterprises. Meanwhile, the introduction of various policies such as the issuance of PPP projects bonds and asset securitization also reflects the government's attitude on encourgaging investment on PPP projects.

Although the promulgation of a series of PPP policies further strengthened the regulation on PPP models, the Group is actively motivating the implementation of existing projects while developing PPP projects with high quality. We also closely monitor PPP projects which have been included in the database as well as strictly control and prevent PPP project risks to ensure successful implementaion.

The Group has obtained a number of merger and acquisition projects in 2017, including the acquisition of approximately 1.09% equity interest in Protection (Asia) Water Treatment Holding Limited, 100% equity interest in Hatlen Investment (Aus.) Pty Ltd, 100% equity interest in Shandong Fengmin Water Co., Ltd.* (山東豐民水務有限公司), 100% equity interest in Wenzhou City Chuangyuan Water Co., Ltd.* (溫州市創源水務有限公司) and 100% equity interest in Sichuan Weiyuan Hefeng Bioengineering Co., Ltd.* (四川威遠禾豐生物工程有限公司).

The Group has obtained a number of Urban Water Treatment projects in 2017 amidst market competition, including Guangdong Province Huizhou City Huiyang District Danshui Sewage Treatment Project, Guangdong Province Huizhou City Maan Town Domestic Sewage Treatment Project, Guangdong Province Zhongshan City Dongsheng Town Wastewater Treatment Project and so on.

* *For identification purpose only*

The Group's strategy of having external strategic alliance starts to take effect and makes a turnaround into benefits in 2017. With the implementation of PPP projects, the Group has obtained corresponding projects of Engineering-Procurement-Construction (the "EPC") as well as the equity investment contribution to our results. In 2017, the Group has obtained the three sub-projects of ecological environment protection and comprehensive treatment (Phase I) project in Fu River Basin in Fuzhou City, Jiangxi Province, the entire county domestic wastewater treatment facilities bundle project in Jiaoling County, Guangdong Province as well as the wastewater treatment plant reconstruction and expansion project in Dongfang City, Hainan Province and so on.

In terms of business development strategy, the Group will continue to push forward the transformation from a traditional wastewater treatment service provider to an urban environmental and comprehensive treatment solutions provider to continuously expand water environment management service, which includes comprehensive water environment remediation, foul water body remediation, sponge city, urban comprehensive pipe tunnel etc., while extending its traditional water business to full water industry chain rapidly, accumulating project reserve quickly, to consolidate the foundation for the Group's development in the next ten years.

In terms of internal management strategy, the Group will continue to innovate its internal management, optimize the Group's internal organizational structure, explore potential, increase efficiency, boost the motivation of our staff, enhance our overall strengths, comprehensively strengthen our brand, actively implement talent training programmes, increase our attraction to talents as well as enhance our investment in the research and development of innovated technologies. Meanwhile, we will further actively motivate the implementation of reformation and expansion of existing sewage treatment factories, increase fees of sewage treatment, and lower operation and administrative cost to enhance the Group's operating capacity, thus increasing the Group's competitive advantages.

In the coming two years, the Group plans to capture more business opportunities in the environmental protection industry. Taking advantage of the opportunities brought about by new environmental protection policies and the PPP model, the Group intends to combine internal and external resources to boost the Group's financial results and our position in the industry and continuously bring more values to our shareholders.

BUSINESS REVIEW

In the year of 2017, the Group continued to execute the development strategy which was performed in the last year. In order to match the Group's strategy and marketing development, the Group conducted the divisions to focus on marketing, constructing and operating tightly. The Group gained good results in 2017, and will seize the prosperous opportunities in the fields of environmental protection in the following years. The principal businesses of the Group include 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 Build-Operate-Transfer (the "BOT"), Transfer-Operate-Transfer (the "TOT"), PPP, Build-Own-Operate (the "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 pursues 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 merger and acquisition. The Group is very confident about the prospects and future profitability.

1.1 Urban Water Treatment

As at 31 December 2017, the Group had entered into a total of 106 service concession arrangements projects, including 99 wastewater treatment plants, 3 water distribution plants, 3 sludge treatment plants and 1 reclaimed water treatment plant. Total daily treatment capacity for new projects secured for the year ended 31 December 2017 was 750,000 tonnes, including wastewater treatment projects of 600,000 tonnes and water distribution projects of 150,000 tonnes. The Group will further expand its Urban Water Treatment chain in the future, in order to improve the profitability and competitiveness.

As at 31 December 2017, the Group's total daily treatment capacity was 4,113,350 tonnes, representing a satisfied increase of approximately 22% as compared with the capacity of 3,363,350 tonnes as at 31 December 2016. The increase of the Group's service concession arrangements projects portfolio was a result of strong execution due to its market expansion and development strategy at beginning of the year.

Analysis of the Group's projects on hand as at 31 December 2017 is as follows:

	Daily wastewater treatment capacity	Daily water distribution capacity	Daily reclaimed water treatment capacity	Daily sludge treatment capacity	Total
(Tonnes)					
In operation	3,046,500	–	40,000	350	3,086,850
Not yet started operation/ Not yet transferred	815,000	211,300	–	200	1,026,500
Total	3,861,500	211,300	40,000	550	4,113,350
(Number of projects)					
In operation	81	–	1	1	83
Not yet started operation/ Not yet transferred	18	3	–	2	23
Total	99	3	1	3	106

	Number of projects	Treatment capacity (Tonnes/Day)	Actual processing volume during the year ended 31 December 2017 (Million Tonnes)
Wastewater treatment services			
Shandong	44	1,284,500	279.7
Henan	21	980,000	322.8
Heilongjiang	5	400,000	109.8
Zhejiang	2	250,000	16.3
Anhui	5	225,000	66.9
Guangdong	4	220,000	3.5
Jiangsu	6	102,000	22.0
Other provinces/municipalities*	12	400,000	52.4
	99	3,861,500	873.4
Water distribution services	3	211,300	–
Reclaimed water treatment services	1	40,000	5.2
Total	103	4,112,800	878.6
Sludge treatment services	3	550	–
Total	106	4,113,350	878.6

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

1.1.1 Operation Services

As at 31 December 2017, the Group had 81 wastewater treatment projects, 1 reclaimed water treatment project, and 1 sludge treatment project in operation in Mainland China. Total daily treatment capacity in operation of wastewater treatment plants, reclaimed water treatment plant, and sludge treatment plant as at 31 December 2017 reached 3,046,500 tonnes, representing an increase of approximately 24% (31 December 2016: 2,451,500 tonnes), 40,000 tonnes (31 December 2016: 40,000 tonnes) and 350 tonnes (31 December 2016: 350 tonnes), respectively. For the year ended 31 December 2017, the annualized utilization rate for wastewater and reclaimed water treatment plants in operation was approximately 86%. The actual average water treatment tariff for the year ended 31 December 2017 was approximately RMB1.33 per tonne (year ended 31 December 2016: approximately RMB1.32 per tonne).The actual aggregate processing volume for the year ended 31 December 2017 was 878.6 million tonnes, representing an increase of approximately 23% (year ended 31 December 2016: 712.9 million tonnes).

Total operation revenue of Urban Water Treatment services recorded for the year ended 31 December 2017 was RMB695.0 million representing an increase of approximately 30% (year ended 31 December 2016: RMB535.7 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 recognizes 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 recognized by using the percentage-of-completion method.

For the year ended 31 December 2017, construction revenue was recognized for 32 projects, including 26 waste water treatment plants, 3 water distribution plants and 3 sludge treatment plants which were mainly located in Henan, Shandong, Heilongjiang and Guangdong provinces in Mainland China. Total construction revenue of those projects for the year ended 31 December 2017 was RMB901.4 million representing an increase of approximately 24% (year ended 31 December 2016: RMB728.4 million). The corresponding increase was primarily due to an increase in construction work of new BOT and PPP projects. As at 31 December 2017, the total daily treatment capacity of the service concession arrangements plants, which was still in the construction stage, was 780,200 tonnes, including wastewater treatment plants of 600,000 tonnes, water distribution plants of 180,000 tonnes and sludge treatment plants of 200 tonnes.

1.2 Water Environment Comprehensive Remediation

In the year of 2017, the Group devoted more efforts to the business of Water Environment Comprehensive Remediation under the guidance of the core strategy set in the year of 2016. The Group entered into 2 PPP projects and 6 EPC projects in Henan, Shandong, Jiangxi and Hainan provinces in Mainland China, of which the contract amount reached approximately RMB6,589.97 million. And the Group pursues more market opportunities in the business of Water Environment Comprehensive Remediation.

The Group had 8 Water Environment Comprehensive Remediation projects under construction during the year 2017. The projects were mainly located in Henan, Shandong, Jiangxi and Hainan provinces in Mainland China. For the year ended 31 December 2017, total revenue of those projects was RMB390.9 million, representing an increase of approximately 170% (year ended 31 December 2016: RMB144.5 million), the corresponding increase was primarily due to an increase in commencement of construction work of new PPP and EPC projects.

1.3 Rural Water Improvement

In the year of 2017, the Group expanded the business of Rural Water Improvement to 2 projects 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 year.

For the year ended 31 December 2017, total revenue of those projects was RMB68.6 million, representing a decrease of approximately 41% (year ended 31 December 2016: RMB115.4 million). The corresponding decrease was due to the unsteady construction progress when the project was in different stages of construction, and because the commencement of construction of Jiaoling County Entire County Domestic Wastewater Treatment Facilities Bundle PPP Project * (蕉嶺縣生活污水處理設施全縣捆綁PPP項目) was in the last quarter of 2017.

* *For identification purpose only*

FINANCIAL ANALYSIS

Revenue

For the year ended 31 December 2017, the Group recorded a revenue of RMB2,523.9 million, representing an increase of approximately 31% compared to the previous corresponding period of RMB1,926.5 million. The increase was mainly due to the increase in construction revenue of RMB375.7 million, the increase in operation revenue of RMB159.3 million, and the increase in financial income of RMB62.4 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 as well.

Cost of Sales

The Group's cost of sales for the year ended 31 December 2017 amounted to RMB1,570.6 million, representing an increase of approximately 42% as compared to the previous corresponding period of RMB1,103.2 million. The increase was due to the increase in construction costs of RMB412.4 million and the increase in operation costs amounted to RMB55.0 million. The increase in construction costs was mainly due to the increase in commencement of 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. Cost of sales mainly includes construction costs of RMB1,174.7 million and operation costs of water treatment plants of RMB395.9 million.

Gross Profit Margin

For the year ended 31 December 2017, gross profit margin was approximately 38%, representing a decrease of 5 percentage points as compared to the previous corresponding period of approximately 43%. 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 increase 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 RMB190.7 million for the year ended 31 December 2017, representing an increase of approximately 50% as compared to the previous corresponding period of RMB127.1 million. The amount for this period primarily included government grants of RMB124.4 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" (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) (the “Cai Shui [2015] No. 78”) and grants for environmental protection, bank interest income of RMB11.2 million, interest income of RMB21.9 million from loans to third parties, gains on foreign exchange transactions of RMB22.2 million, and investment income of RMB8.7 million.

Selling and Distribution Expenses

The Group’s selling and distribution expenses for the year ended 31 December 2017 was RMB12.0 million, representing an increase of approximately 9% as compared to RMB11.0 million of last year, which was as a result of continuously ongoing market expansion strategy.

Administrative Expenses

Administrative expenses for the year ended 31 December 2017 was RMB278.9 million, representing an increase of approximately 18% as compared to the previous corresponding period of RMB235.8 million. The increase was mainly due to the increase in staff costs of RMB16.2 million which was caused by the increase of companies operated in line with the Group’s expansion plan, the increase in professional expense amounting to RMB13.7million, and travelling expenses related to the Group’s development and subsidiary management amounting to RMB6.5 million.

Other Expenses

Other expenses for the year ended 31 December 2017 was RMB7.8 million, which was mainly comprised of the loss and the write-off of Build-Transfer (the “BT”) receivables during the year.

Finance Costs

Finance costs for the year ended 31 December 2017 mainly represented interests on interest-bearing bank borrowings and corporate bonds of RMB354.9 million, representing an increase of approximately 32% as compared to RMB269.5 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 amount of interest-bearing bank borrowings and corporate bonds increased approximately RMB1,834.2 million and the average interest rate decreased to 4.99%.

Share of Profits and Losses of Associates

Share of profits and losses of associates for the year ended 31 December 2017 was RMB43.7 million, representing an increase of approximately 56% as compared to RMB28.1 million for the previous corresponding period, primarily including the share of profits of RMB41.0 million from the Group’s associate Zhongyuan Asset Management Co., Ltd.* (中原資產管理有限公司) for the nine months in 2017, which was classified as “available-for-sale financial investment” on 30 September 2017, and the share of profits of RMB3.2 million from the Group’s associate Nanchang Qingshanhu Sewage Treatment Co., Ltd.* (南昌青山湖污水處理有限公司). We have unified the basis for the preparation of the financial statements of associates and the Group.

* *For identification purpose only*

Share of Profits and Losses of Joint ventures

Share of profits and losses of joint ventures for the year ended 31 December 2017 was RMB2.6 million, representing an increase as compared to the loss of RMB1.3 million in the previous corresponding period, primarily because 49% equity interest in the Group's joint venture Zibo Tianqiyuan Water Distribution Co., Ltd.* (淄博市天齊淵供水有限公司) was acquired on 31 August 2017 and recognised a profit of RMB3.1 million.

Income Tax Expense

Income tax expense for the year ended 31 December 2017 included the current PRC income tax of RMB70.7 million and deferred tax expenses of RMB38.5 million, compared to RMB37.4 million and RMB54.0 million for the previous corresponding period, respectively. The Group's effective tax rate for the year ended 31 December 2017 was approximately 20%, representing a slightly decrease as compared with 21% for the last corresponding period.

Financial Receivables

	As at	
	31 December 2017	31 December 2016
	RMB'000	*RMB'000*
Receivables for service concession arrangements	**9,087,022**	7,044,612
Receivables for BT arrangements	**–**	9,643
Subtotal of financial receivables	**9,087,022**	7,054,255
Portion classified as current	**1,410,155**	1,268,065
Non-current portion	**7,676,867**	5,786,190

As at 31 December 2017, the Group's financial receivables were RMB9,087.0 million, representing an increase of approximately 29% as compared to RMB7,054.3 million as at 31 December 2016. 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.

Construction contracts

As at 31 December 2017, the figure of construction contracts, which are gross amounts due from customers for contract work, was RMB80.5 million, representing a decrease of approximately 57% as compared to RMB188.4 million as at 31 December 2016. The decrease was primarily due to the increase in progress billing for the EPC projects.

* *For identification purpose only*

Trade and Bills Receivables

As at 31 December 2017, the Group's trade and bills receivables of RMB1,146.1 million (31 December 2016: RMB765.2 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 RMB380.9 million, mainly due to (i) the increase of Urban Water Treatment projects receivables of approximately RMB62.2 million, (ii) the increase of Water Environment Comprehensive Remediation projects receivables of approximately RMB333.4 million, which included cash collected from Yucheng and Wendeng BT projects of approximately RMB27.4 million, and EPC project net receivables of approximately RMB360.8 million arose from the progress billing and cash settlement, and (iii) the decrease of bills receivables of approximately RMB14.7 million caused by bills endorsement and expires.

Prepayments, Deposits and Other Receivables

As at 31 December 2017, the Group's prepayments, deposits and other receivables of RMB823.8 million (31 December 2016: RMB1,051.0 million) decreased by RMB227.2 million, mainly arose from the decrease in loans to third parties of approximately RMB258.4 million according to the business acquisition and construction contract, deposits collected from the Group's new projects through business acquisition of approximately RMB47.8 million, and increase in other operational receivables of approximately RMB79.0 million.

Cash and Cash Equivalents

As at 31 December 2017, the Group's cash and cash equivalents of RMB1,689.6 million (31 December 2016: RMB675.3 million) increased by RMB1,014.3 million. The increase was due to the increase of Group's interest-bearing bank borrowings.

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Net cash flows used in operating activities[1]	**(812,723)**	(199,583)
Net cash flows used in investing activities	**(479,452)**	(1,081,231)
Net cash flows from financing activities	**2,310,139**	655,521
Net increase/(decrease) in cash and cash equivalents	**1,017,964**	(625,293)
Effect of foreign exchange rate changes	**(3,616)**	8,808
Cash and cash equivalents at beginning of the period	**675,285**	1,291,770
Cash and cash equivalents at end of the period	**1,689,633**	675,285

Note:

(1) For the years ended 31 December 2017 and 2016, the Group invested RMB1,213.4 million and RMB540.4 million, respectively, in the Group's BOT, TOT and PPP projects. Such investments were counted towards cash flows used in operating activities. Under the relevant accounting treatment, part of such cash outflows used in operating activities was used to form the non-current portion of financial receivables in the Group's consolidated statement of financial position. For the years ended 31 December 2017 and 2016, the Group would have incurred cash inflows of RMB400.7 million and cash inflows of RMB340.8 million, respectively, if the Group's investments in BOT, TOT and PPP activities were not accounted for as cash flows used in operating activities.

Trade and Bills Payables

As at 31 December 2017, the Group's trade and bills payables of RMB1,290.5 million (31 December 2016: RMB916.7 million) increased by RMB373.8 million, which was in line with the Group's construction work carried out and settlements.

Other Payables and Accruals

As at 31 December 2017, the Group's other payables and accruals of RMB514.5 million (31 December 2016: RMB263.1 million) increased by RMB251.4 million, which was mainly due to increase of the consideration payables for new projects through business acquisition and other operational payables.

Liquidity and Financial Resources

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

As at 31 December 2017, the carrying amount of the Group's cash and cash equivalents was RMB1,689.6 million, representing an increase of approximately RMB1,014.3 million as compared to RMB675.3 million as at 31 December 2016, which was mainly due to the net cash inflows from financing activities of RMB2,310.1 million, settlements of acquisition and investing payables amounting to RMB569.3 million and cash outflows of RMB134.3 million for purchases and construction of property, plant and equipment and intangible assets from investing activities, repayments of loans to third party amounting to RMB146.0 million from investing activities, repurchase of available-for-sale financial investments amounting to RMB158.4 million from investing activities, and the net cash outflows from operating activities of RMB812.7 million.

The Group's total interest-bearing bank borrowings amounted to RMB6,395.1 million as at 31 December 2017 (31 December 2016: RMB4,521.0 million), over 81% of which bear interest at floating rates.

The Group's total corporate bonds amounted to RMB2,048.8 million as at 31 December 2017 (31 December 2016: RMB1,246.8 million), which comprised corporate bonds issued on 18 December 2015, 30 June 2016, 13 July 2017, 10 August 2017, 14 September 2017, and 19 December 2017, with an aggregate amount of RMB900.0 million, RMB60.0 million, RMB200.0 million, RMB300.0 million, RMB300.0 million and RMB300.0 million, respectively. All the corporate bonds bear interest at fixed rates.

As at 31 December 2017, the Group had banking facilities amounting to RMB57,366.2 million, of which RMB49,702.0 million have not been utilised. Of the unutilised banking facilities as at that date, RMB380.0 million were unrestricted facilities and the remaining RMB49,322.0 million were restricted facilities, which were mainly limited to be utilized on environmental protection infrastructure and comprehensive management.

As at 31 December 2017, the gearing ratio (calculated by net debt divided by capital and net debt) is 67%, while the gearing ratio was 63% as at 31 December 2016. 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 31 December 2017 was approximately RMB6,395.1 million, which were repayable within one month to twenty-eight years and were secured by financial receivables, service concession intangible assets, property, plant and equipment, trade receivables and pledged deposits, of which the total amounts of the pledge of assets amounted to RMB5,560.7 million.

Capital Expenditure

During the year ended 31 December 2017, the Group's total capital expenditure were RMB1,898.2 million, compared to RMB1,590.9 million in 2016, primarily including the consideration of approximately RMB1,228.2 million for construction and acquisition of BOT, TOT, BOO and PPP projects and the consideration of approximately RMB597.6 million for acquisition of equity interests in subsidiaries, associates and joint venture.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

(a) On 1 July 2017, Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd.* (重慶康達環保產業（集團）有限公司) ("Chongqing Kangda") acquired 70% interest in Wenzhou Chuangyuan Water Co., Ltd. (溫州市創源水務有限公司)("Wenzhou Chuangyuan"). Meanwhile, pursuant to the agreements between Chongqing Kangda, Zhongtong Zhiye Group Co., Ltd* (中通置業集團有限公司) ("Zhongtong Zhiye") and Zhejiang Xinbang Holdings Group Co., Ltd.* (浙江新邦控股集團有限公司)("Zhejiang Xinbang"), Chongqing Kangda was given the present access to returns over all of the shares held by Zhongtong Zhiye and Zhejiang Xinbang, then there was no non-controlling interest presented in equity and Chongqing Kangda accounts for the business combination of Wenzhou Chuangyuan as though it acquired a 100% interest. The consideration was RMB324.8 million, including the consideration for 100% of the equity interest in Wenzhou Chuangyuan, amounted to approximately RMB209.8 million, and the liabilities of Wenzhou Chuangyuan to be assumed by Chongqing Kangda, amounted to approximately RMB115.0 million. The daily treatment capacity gained through acquisition of Wenzhou Chuangyuan was 250,000 tonnes for wastewater treatment. The equity transfer agreement was entered into on 23 May 2017, while the transaction was finally completed on 1 July 2017.

    Further details of the transaction were set out in the Company's announcement dated 23 May 2017.

(b) On 31 August 2017, Kangda Investment (Hong Kong) Company Limited, an indirectly wholly-owned subsidiary of the Group, acquired 100% interest in Meiling Environmental Technology (Zibo) Co., Ltd.* (美陵環境科技(淄博)有限公司)("Meiling Zibo"), 100% interest in Jining Meiling Sewage Purification Co., Ltd.* (濟寧市美陵污水淨化有限公司)("Jining Meiling"), 100% interest in Qingzhou Meiling Sewage Purification Co., Ltd.* (青州市美陵污水淨化有限公司) ("Qingzhou Meiling") (Meiling Zibo, Jining Meiling, and Qingzhou Meiling are collectively referred to as the "Meiling Group"), and 49% interest in Zibo Tianqiyuan Water Distribution Co., Ltd.* (淄博市天齊淵供水有限公司) ("Zibo Tianqiyuan"). The consideration was RMB543.3 million, including the consideration for 100% of the equity interest in Meiling Group and 49% interest in Zibo Tianqiyuan amounted to approximately RMB377.3 million, and the liabilities of Meiling Group to be assumed by Chongqing Kangda, amounted to approximately RMB166.0 million. The daily treatment capacity gained through acquisition of Meiling Group was 200,000 tonnes for wastewater treatment and 20,000 tonnes for O&M. The equity transfer agreement was entered into on 16 December 2016, while the transaction was finally completed on 31 August 2017.

    Further details of the transaction were set out in the Company's announcement dated 16 December 2016.

Save as disclosed above, the Group had no significant investments, acquisitions and disposals of subsidiaries and associated companies during the year ended 31 December 2017.

* *For identification purpose only*

EMPLOYEES AND REMUNERATION POLICIES

The Group had 2,427 employees as at 31 December 2017. The remuneration package of the Group is generally determined with reference to market conditions and individual performance. Salaries are normally reviewed annually based on performance appraisals and other relevant factors. The Group provides external and internal training programs to its employees.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities (31 December 2016: Nil).

FOREIGN EXCHANGE RISK

Majority of the subsidiaries of the Company operate in the PRC with most of the transactions denominated and settled in RMB. As at 31 December 2017, except for the bank deposits and certain amount of interest-bearing bank borrowings denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations. Currently, the Group has not used derivative financial instruments to hedge its foreign currency risk.

EVENTS AFTER THE REPORTING PERIOD

On 27 March 2018, the Board recommends a final dividend of RMB2.0 cents per ordinary share (year ended 31 December 2016: RMB1.6 cents per ordinary share) for the year ended 31 December 2017. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

PROPOSED FINAL DIVIDEND

The Board has recommended a final dividend of RMB2.0 cents per share for the year ended 31 December 2017 (year ended 31 December 2016: RMB1.6 cents per share) subject to the approval of the shareholders of the Company at the forthcoming annual general meeting to be held on Thursday, 14 June 2018 (the "Annual General Meeting").

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 11 June 2018 to Thursday, 14 June 2018, both days inclusive, in order to determine the identity of the shareholders of the Company who are entitled to attend the forthcoming Annual General Meeting to be held on Thursday, 14 June 2018. The record date for entitlement to attend and vote at the Annual General Meeting is Monday, 11 June 2018. All transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong before 4:30 p.m. on Friday, 8 June 2018.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders of the Company at the Annual General Meeting. The record date for entitlement to the proposed final dividend is Monday, 25 June 2018. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, 21 June 2018 to Monday, 25 June 2018, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, for registration not later than 4:30 p.m. on Wednesday, 20 June 2018. The payment of final dividend will be made on Thursday, 5 July 2018.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and permitted under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), are held by the public at all times during the year ended 31 December 2017 and up to the date of this announcement.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules and there has been no deviation from the code provisions as set forth under the CG Code for the year ended 31 December 2017. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

AUDIT COMMITTEE

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

The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting procedure and internal controls of the Company. The Audit Committee has reviewed and approved the final results for the year ended 31 December 2017 and discussed the internal control and risk management systems. The Audit Committee considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

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

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Federation of Accounts and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the year ended 31 December 2017.

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

The Company repurchased a total of 6,150,000 ordinary shares of the Company on the Hong Kong Stock Exchange for the year ended 31 December 2017 at an aggregate consideration of approximately HK$11,566,000 (before expense). All the repurchased shares were subsequently cancelled by the Company. Details of repurchase of such ordinary shares were as follows:

Month/year	**Number of ordinary shares repurchased**	**Price per Share**		**Aggregate consideration paid (approximately)**
		Highest	*Lowest*	
		HK$	*HK$*	*HK$*
October 2017	1,000,000	2.01	1.94	1,974,000
November 2017	5,150,000	1.95	1.75	9,592,000

Save as disclosed above, during the year ended 31 December 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF THE CONSOLIDATED ANNUAL RESULTS AND 2017 ANNUAL REPORT ON THE WEBSITES OF THE HONG KONG STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Hong Kong Stock Exchange and the Company, and the 2017 annual report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Hong Kong Stock Exchange and the Company in due course.

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

Hong Kong, 27 March 2018

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