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 2016

HIGHLIGHTS

- Revenue was approximately RMB1,926.5 million, representing an increase of approximately 5% as compared with that of last year.
- Profit attributable to owners of the parent was approximately RMB334.6 million, representing an increase of approximately 3% 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 RMB16.18 cents.
- As at 31 December 2016, total daily treatment capacity was 3,363,350 tonnes, representing an increase of approximately 20% as compared with that of 2,807,800 tonnes as at 31 December 2015.
- The Board recommends a final dividend of RMB1.6 cents per share for the year ended 31 December 2016.

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 2016 together with the comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	3	**1,926,502**	1,836,478
Cost of sales		**(1,103,173)**	(962,607)
Gross profit		**823,329**	873,871
Other income and gains	4	**127,101**	63,382
Selling and distribution expenses		**(11,044)**	(9,975)
Administrative expenses		**(235,794)**	(210,021)
Other expenses		**(23,493)**	(38,559)
Finance costs	5	**(269,468)**	(240,450)
Share of profits and losses of:			
Associates		**28,076**	4,899
A joint venture		**(1,315)**	–
PROFIT BEFORE TAX	6	**437,392**	443,147
Income tax expense	7	**(91,400)**	(108,500)
PROFIT FOR THE YEAR		**345,992**	334,647
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Share of other comprehensive income of an associate		**14,395**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**360,387**	334,647
Profit attributable to:			
Owners of the parent	8	**334,577**	324,883
Non-controlling interests		**11,415**	9,764
		345,992	334,647
Total comprehensive income attributable to:			
Owners of the parent		**348,972**	324,883
Non-controlling interests		**11,415**	9,764
		360,387	334,647
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (expressed in RMB per share)	8	**16.18 cents**	15.71 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**100,082**	85,363
Investment properties		**1,592**	1,850
Investments in associates		**620,463**	58,582
Investment in a joint venture		**23,185**	–
Intangible assets		**279,634**	3,154
Goodwill		**60,219**	43,049
Financial receivables	*9*	**5,786,190**	4,850,068
Deferred tax assets		**53,715**	36,313
Prepayments, deposits and other receivables		**292,964**	154,960
Total non-current assets		**7,218,044**	5,233,339
CURRENT ASSETS			
Inventories		**36,593**	13,041
Construction contracts	*10*	**188,370**	181,360
Financial receivables	*9*	**1,268,065**	1,375,168
Trade and bills receivables	*11*	**765,208**	621,968
Prepayments, deposits and other receivables		**758,042**	179,544
Structured deposit		**–**	450,400
Pledged deposits		**92,444**	119,220
Available-for-sale financial investments		**158,400**	–
Cash and cash equivalents		**675,285**	1,291,770
Total current assets		**3,942,407**	4,232,471
CURRENT LIABILITIES			
Trade and bills payables	*12*	**910,396**	764,354
Other payables and accruals		**263,125**	201,756
Deferred income		**16,133**	–
Interest-bearing bank and other borrowings	*13*	**2,360,092**	1,578,687
Corporate bonds	*14*	**300,000**	–
Tax payable		**19,839**	18,770
Total current liabilities		**3,869,585**	2,563,567
NET CURRENT ASSETS		**72,822**	1,668,904
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,290,866**	6,902,243

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 31 December 2016

	Notes	**2016** **RMB'000**	2015 *RMB'000*
NON-CURRENT LIABILITIES			
Trade payables	*12*	**6,304**	3,640
Interest-bearing bank and other borrowings	*13*	**2,160,917**	2,311,267
Corporate bonds	*14*	**946,825**	885,556
Deferred income		**17,833**	–
Deferred tax liabilities		**465,820**	371,097
Total non-current liabilities		**3,597,699**	3,571,560
Net assets		**3,693,167**	3,330,683
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**16,444**	16,444
Reserves		**3,530,541**	3,183,584
		3,546,985	3,200,028
Non-controlling interests		**146,182**	130,655
Total equity		**3,693,167**	3,330,683

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.1 BASIS OF PREPARATION

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

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

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 2016. 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 obtained control, and continue to be consolidated until the date that such control ceases.

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

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

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

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 Cycle	*Amendments to a number of IFRSs*

Except for the amendments to IFRS 10, IFRS 12 and IAS 28, amendments to IFRS 11, IFRS 14, amendments to IAS 16 and IAS 41, amendments to IAS 27, and certain amendments included in the Annual Improvements *2012–2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

  (i) the materiality requirements in IAS 1;

  (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

  (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

  (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

  Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) Annual Improvements to IFRSs 2012-2014 Cycle issued in September 2014 sets out amendments to a number of IFRSs. Details of the amendments are as follows:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in IFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

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 Waster Water Treatment Plants (the "WTPs"), Reclaimed Water Treatment Plants (the "RWTPs"), Water Distribution Plants (the "WDPs"), Sludge Treatment Plants (the "STPs"), 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 monitor 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, a structured deposit 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 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)**
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 amortisation	**4,681**	**–**	**–**	**4,681**
Unallocated depreciation and amortisation				**3,528**
Total depreciation and amortisation				**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)

Year ended 31 December 2015	Urban Water Treatment *RMB'000*	Water Environment Comprehensive Remediation *RMB'000*	Total *RMB'000*
Segment revenue			
Sales to external customers	1,575,519	260,959	1,836,478
	1,575,519	260,959	1,836,478
Segment results	740,433	151,610	892,043
Reconciliation:			
Unallocated income and gains			16,562
Corporate and other unallocated expenses			(225,008)
Finance costs			(240,450)
Profit before tax			443,147
Segment assets	6,778,696	720,921	7,499,617
Reconciliation:			
Corporate and other unallocated assets			1,966,193
Total assets			9,465,810
Segment liabilities	3,207,781	188,323	3,396,104
Reconciliation:			
Corporate and other unallocated liabilities			2,739,023
Total liabilities			6,135,127
Other segment information			
Investment in an associate	58,582	–	58,582
Share of profit and loss of an associate	4,899	–	4,899
Depreciation and amortisation	3,343	–	3,343
Unallocated depreciation and amortisation			4,311
Total depreciation and amortisation			7,654
Capital expenditure	2,561	–	2,561
Unallocated amounts			2,049
Total capital expenditure*			4,610

* 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

	2016	2015
	RMB'000	*RMB'000*
Mainland China	**1,926,502**	1,836,478

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

(b) Non-current assets

	2016	2015
	RMB'000	*RMB'000*
Mainland China	**7,164,329**	5,197,026

All the non-current assets are located in Mainland China. The non-current assets 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 2016

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

Year ended 31 December 2015

	Urban Water Treatment	Water Environment Comprehensive Remediation	Total
	RMB'000	*RMB'000*	*RMB'000*
Customer C	20,389	266,402	286,791
Customer D	219,342	–	219,342
	239,731	266,402	506,133

3. REVENUE

The Group has entered into a number of service concession arrangements with the Grantors on a Build-Operate-Transfer (the "BOT") or a Transfer-Operate-Transfer (the "TOT") basis in respect of its WTPs, RWTPs, WDPs, STPs or other municipal infrastructures. These service concession arrangements generally involve the Group as an operator in (i) constructing WTPs, RWTPs, WDPs, STPs, or other municipal infrastructures 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 infrastructures 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 also carries out construction works of municipal infrastructures or infrastructures related to WTPs under Build-Transfer (the "BT") arrangements for certain BT customers and agrees with these BT customers to have 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, 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 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:

	2016	2015
	RMB'000	*RMB'000*
Revenue from construction services	**980,267**	942,626
Revenue from operating services	**535,706**	549,126
Financial income	**410,529**	344,726
	1,926,502	1,836,478

4. OTHER INCOME AND GAINS

	2016	2015
	RMB'000	*RMB'000*
Government grants (note (a))	**104,134**	43,054
Bank interest income	**8,688**	10,407
Interest income from loans to third parties	**8,473**	–
Investment income from available-for-sale financial investments and structured deposit	**3,892**	–
Rental income less depreciation of investment properties	**326**	368
Gain on disposal of items of property, plant and equipment, net	**37**	129
Arrangement fee from a BT customer	**–**	3,766
Foreign exchange differences	**–**	3,360
Others	**1,551**	2,298
	127,101	63,382

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

	2016 *RMB'000*	2015 *RMB'000*
Interest-bearing bank and other borrowings	**215,565**	238,485
Interest on corporate bonds	**53,903**	1,965
	269,468	240,450

6. PROFIT BEFORE TAX

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

	Notes	2016 *RMB'000*	2015 *RMB'000*
Cost for construction services		**762,179**	642,150
Cost for operation services		**340,994**	320,457
Total cost of services		**1,103,173**	962,607
Depreciation of property, plant and equipment		**7,437**	7,211
Amortisation of intangible assets		**514**	185
Write-off of trade receivables	*11*	**–**	33,547
Provision for impairment of other receivables		**1,747**	–
Minimum lease payments under operating leases for buildings		**5,613**	5,562
Auditor's remuneration		**2,800**	2,900
Employee benefit expense (including directors' remuneration):			
Wages, salaries and allowances, social securities and benefits		**151,329**	137,132
Pension scheme contributions (defined contribution scheme)		**16,275**	12,689
Equity-settled share option expenses		**15,857**	32,232
Total employee benefit expense		**183,461**	182,053
Operating lease income		**(584)**	(626)
Less: depreciation of investment properties		**258**	258
Rental income less depreciation of investment properties	*4*	**(326)**	(368)
Bank interest income	*4*	**(8,688)**	(10,407)
Government grants	*4*	**(104,134)**	(43,054)
Interest income from loans to third parties	*4*	**(8,473)**	–
Investment income from available-for-sale financial investments and structured deposit	*4*	**(3,892)**	–
Arrangement fee from a BT customer	*4*	**–**	(3,766)
Gain on disposal of items of property, plant and equipment, net	*4*	**(37)**	(129)
Foreign exchange differences, net		**4,508**	(3,360)

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 comprise 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.

	2016	2015
	RMB'000	*RMB'000*
Current		
— Mainland China	**37,426**	33,184
Deferred	**53,974**	75,316
Total tax charge for the year	**91,400**	108,500

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:

	2016		2015	
	RMB'000	%	*RMB'000*	%
Profit before tax	**437,392**		443,147	
Income tax charge at the statutory income tax rate	**109,348**	**25.0**	110,787	25.0
Effect of the preferential income tax rate for some entities	**(27,453)**	**(6.3)**	(19,235)	(4.3)
Expenses not deductible for tax purposes	**3,474**	**0.8**	3,587	0.8
Tax effect of tax losses not recognised	**12,721**	**2.9**	14,586	3.3
Tax effect of share of profits and losses of associates and a joint venture	**(6,690)**	**(1.5)**	(1,225)	(0.3)
Tax charge at the effective rate	**91,400**	**20.9**	108,500	24.5

The share of tax attributable to associates and a joint venture amounting to RMB6,192,000 (2015: RMB1,829,000) is included in "Share of profits and losses of associates" and "Share of profit and loss of a joint venture" 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 was 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 2016 and 2015 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:

	2016	2015
	RMB'000	*RMB'000*
Earnings:		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	**334,577**	324,883

	2016	2015
	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	**2,067,515,000**	2,067,515,000

9. FINANCIAL RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Receivables for service concession arrangements	**7,044,612**	5,917,936
Receivables for BT arrangements	**9,643**	307,300
Net financial receivables	**7,054,255**	6,225,236
Portion classified as current assets	**(1,268,065)**	(1,375,168)
Non-current portion	**5,786,190**	4,850,068

Receivables for service concession arrangements arose from the service concession contracts to build and operate WTPs 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 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 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 2016, the Group's financial receivables with a carrying value of RMB3,913,773,000 (2015: RMB3,680,551,000) were pledged to secure certain bank loans granted to the Group (note 13).

10. CONSTRUCTION CONTRACTS

	2016 *RMB'000*	2015 *RMB'000*
Contract costs incurred plus recognised profits less recognised losses to date	**565,001**	343,156
Less: Progress billings	**(376,631)**	(161,796)
Gross amount due from contract customers for contract work	**188,370**	181,360

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.

	2016 *RMB'000*	2015 *RMB'000*
Trade receivables:		
Receivables for urban water treatment	**403,824**	226,270
Receivables for water environment comprehensive remediation	**346,310**	225,698
	750,134	451,968
Bills receivable	**15,074**	170,000
	765,208	621,968

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 years as follows:

	2016 *RMB'000*	2015 *RMB'000*
Within 3 months	**352,030**	336,636
4 to 6 months	**47,512**	39,958
7 to 12 months	**297,165**	17,948
Over 12 months	**53,427**	57,426
	750,134	451,968

11. 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:

	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired	**492,461**	309,684
Past due but not impaired:		
Less than 3 months past due	**106,473**	50,521
4 to 6 months past due	**47,512**	33,518
Over 6 months past due	**103,688**	58,245
	750,134	451,968

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:

	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**–**	–
Impairment losses recognised (note (a))	**–**	33,547
Impairment losses written off (note (a))	**–**	(33,547)
At end of the year	**–**	–

Note:

(a) During the year ended 31 December 2015, the Group entered into a supplemental agreement with the customer of Jilin BT project on acceleration of cash settlement of BT receivables, according to which the customer was granted a discount of total amounting to RMB33,547,000.

During the year ended 31 December 2016, Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd. (重慶康達環保產業（集團）有限公司) ("Chongqing Kangda") endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of their suppliers in order to settle the trade payables to such suppliers with an aggregate carrying amount of RMB297,300,000. Among the Derecognised Bills, there were RMB166,000,000 remaining undue as at 31 December 2016. The Derecognised Bills had a maturity of six months or one year. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

11. TRADE AND BILLS RECEIVABLES (continued)

During the year ended 31 December 2016, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year ended 31 December 2016 or cumulatively. The endorsement has been made evenly throughout the year ended 31 December 2016.

At 31 December 2016, the Group's trade receivables with a carrying value of RMB126,559,000 (2015: RMB177,343,000) 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.

	2016	2015
	RMB'000	*RMB'000*
Bills payable (note (a))	**117,848**	123,400
TOT payables (note (b))	**6,985**	16,985
Trade payables	**791,867**	627,609
	916,700	767,994
Less: non-current portion	**6,304**	3,640
Current portion	**910,396**	764,354

Notes:

(a) As at 31 December 2016, the Group's bills payable were secured by the pledged deposits amounting to RMB59,427,000 (2015: RMB54,354,000).

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

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**414,965**	357,210
4 months to 6 months	**145,824**	85,165
7 months to 12 months	**140,205**	151,799
Over 12 months	**215,706**	173,820
	916,700	767,994

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

	2016			2015		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Current						
Bank loans						
— unsecured	**3.92-4.50**	**2017**	**780,000**	4.57-5.52	2016	700,000
Bank loans						
— secured	**3.30-4.84**	**2017**	**789,639**	3.70-6.16	2016	469,456
Current portion of long term bank loans — secured	**4.75-8.00**	**2017**	**790,453**	4.90-8.00	2016	409,231
			2,360,092			1,578,687
Non-current						
Long term other loans						
— unsecured	**1.2**	**2026**	**30,000**	–	–	–
Long term bank loans						
— secured	**4.75-8.00**	**2018-2033**	**2,130,917**	4.90-8.00	2017-2025	2,311,267
			2,160,917			2,311,267
			4,521,009			3,889,954
Interest-bearing bank and other borrowings denominated in						
— RMB			**4,326,864**			3,734,965
— Hong Kong dollars			**138,649**			154,989
— US dollars			**55,496**			–
			4,521,009			3,889,954

	2016	2015
	RMB'000	*RMB'000*
Analysed into:		
Bank and other borrowings repayable:		
Within one year	**2,360,092**	1,578,687
In the second year	**463,099**	717,106
In the third to fifth years, inclusive	**1,037,314**	930,535
Beyond five years	**660,504**	663,626
	4,521,009	3,889,954

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

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

	2016	2015
	RMB'000	*RMB'000*
Property, plant and equipment	**21,283**	22,993
Investment properties	**1,592**	1,850
Financial receivables *(note 9)*	**3,913,773**	3,680,551
Trade and bills receivables *(note 11)*	**126,559**	177,343
Pledged deposits	**24,517**	64,067
Investments in subsidiaries	**384,920**	261,400

The Group's bank borrowings of RMB50,700,000 (2015: RMB79,700,000) were secured by the investment in the subsidiary, Beijing Chang Sheng. The Group's bank borrowings of RMB69,120,000 (2015: Nil) were secured by the investment in the subsidiary, Dong'e Guohuan. The Group's bank borrowings of RMB91,000,000 (2015: Nil) 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), a wholly-owned subsidiary of the Company.

The Group's bank borrowings of RMB50,000,000 (2015: Nil) were secured by Mr. Zhao Juanxian, who is the controlling shareholder of the Company.

14. CORPORATE BONDS

A corporate bond with a principal amount of RMB300,000,000 was issued by Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, to certain institutional investors on 7 December 2016 pursuant to the subscription agreement dated 29 November 2016, which is due on 7 June 2017 and bears interest at the rate of 4.5% per annum.

A corporate bond with a principal amount of RMB60,000,000 was issued by Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, to certain institutional investors on 30 June 2016 pursuant to the subscription agreement dated 23 June 2016, which is due on 1 July 2019 and bears interest at the rate of 5.8% per annum.

As at 31 December 2016, the carrying amount of the bond issued by the Group on 18 December 2015 was RMB887,296,000, with a maturity date on 18 December 2022 and an interest rate at 5.5% per annum, offering the issuer an option to adjust the interest rate at the end of the third and fifth years.

	2016	2015
	RMB'000	*RMB'000*
Unsecured short term corporate bond	**300,000**	–
Unsecured long term corporate bonds	**946,825**	885,556
	1,246,825	885,556

15. EVENTS AFTER THE REPORTING PERIOD

On 16 December 2016, Kangda Investment (Hong Kong) Company Limited, an indirectly wholly-owned subsidiary of the Company, entered into an agreement with China Meiling Environment Holdings Pte. Ltd. (中國美陵環境控股有限公司（新加坡）) ("China Meiling") for the acquisition of an 100% equity interest in Meiling Environmental Science and Technology (Zibo) Co., Ltd. (美陵環境科技（淄博）有限公司) ("Meiling Environmental"), which is a wholly-owned subsidiary of China Meiling, at a consideration of RMB377,250,000. Since the acquisition was not yet completed on the date of approval of these financial statements, it is not practicable to disclose further details about the acquisition.

On 30 March 2017, the board of directors of the Company recommends a final dividend of RMB1.6 cents per ordinary share (2015: RMB1.6 cents per ordinary share) for the year ended 31 December 2016. 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

Water Environmental protection industry enjoys a series of advantages in 2016: comprehensive reform in environment assessment system; fully implementation of river supervisor system; approval and official implementation of a series of environmental protection regulations; active promotion of Public-Private Partnership (the "PPP") project policy by the country. At the same time, the control of environmental protection is becoming more stringent; owners demand for the overall strength of the environmental protection industry is increasing; different kinds of capital from various segment influx to take part in the competition in environmental protection; and the competition of project being intensified posed difficult challenges to the market players.

While challenges and opportunities co-exist in the industry, the Group's Urban Water Treatment business has acquired many new projects in 2016, including Shandong Province Dongping County Second Sewage Treatment Plant BOT Project, Xuzhou City Feng County Urban Area Wastewater Treatment Plant Phase III BOT project, Hebei Province Dacheng County Wastewater Treatment Plant Phase II BOT project, Sanmenxia City Shanzhou District Industrial Cluster Region Water Distribution Plant BOT Project, Tianjin City Ninghe District Urban Wastewater Treatment Plant Phase I & II Upgrade and Reconstruction Project, Tianjin City Ninghe District Wastewater Treatment Plant Sludge Treatment Station BOT project, Shandong Province Feicheng City Bianyuan Wastewater Treatment Plant TOT Project and Liaoning Province Shenyang City Coastal Economic Zone Wastewater Treatment Plant TOT Project.

In addition, the Group acquired 95% of the equity interests in Qishan County Dayuan Sewage Treatment Co., Ltd.*(岐山縣大源污水處理有限責任公司) Following the acquisition of 90% of the equity interests in the seven companies held by Shandong Guohuan Industrial Investment Co., Ltd.* (山東國環產業投資有限公司) by the Group in 2014 and 2015 respectively, the Group continued to acquire 9% of the equity interests in the aforesaid companies in the first half of 2016. It also acquired 100% of the equity interests in Qitaihe Wanxinglong Water Co., Ltd.* (七台河萬興隆水務有限責任公司) and 100% equity interests in Mailing Environmental Science and Technology (Zibo) Co., Ltd. (美陵環境科技(淄博)有限公司) in 2016.

Moreover, the Group participated in many PPP projects in 2016, including Water Supply and Drainage PPP Project in the urban area of Rushan City, Shandong Province and Guangdong Province Yunan County Entire County Domestic Wastewater Treatment Bundle PPP Project.

The Group still puts great emphasis on the technology-based strategies. The Group commits to pursuing technological advancement through improving our scientific innovation ability; and to achieve win-win development through a variety of collaboration such as project cooperation and strategy alliance. In April 2016, the Group formed an associate with the top-notch institution of water environment treatment in the PRC, 702 Research Institute of China Shipbuilding Industry Corporation* (中國船舶重工集團公司第七〇二研究所), by means of equity acquisition, so as to maximize the Group's technological advantages over water environment treatment.

* *For identification purposes only*

Regarding business development strategy, the Group will continue to facilitate its transformation from a provider of urban water treatment services to an urban environmental and comprehensive treatment solutions provider, focusing on water environment comprehensive remediation, including river harnessing and improvement, foul water body remediation, sponge city construction, urban comprehensive pipeline tunnel and etc. meanwhile, urban water treatment business will rapidly expand to the other segments of water industrial chain to speed up the accumulation of project reserves, with a view to laying a development foundation for the Group in the next five to ten years.

As for internal management strategy, the Group continues to advance division reform and bring business divisions' initiative and professionalism into full play with independent accounting. Urban Water Treatment Division, Water Environment Comprehensive Remediation Division and Rural Water Improvement Division are currently the main business units of the Group.

In the coming two years, the Group plans to seize more business opportunities in the environmental market, and take advantage of the opportunities brought by the new environmental policies and the PPP model to integrate the Group's external and internal resources, so as to rapidly improve the financial results and enhance the industry position of the Group, continuously bringing greater value to the shareholders.

BUSINESS REVIEW

In the year 2016, the Group was in the strategic transforming period. In order to match the Group's strategy and marketing development, the Group continued to advance division reform, which means the divisions are in charge of specific businesses. 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, 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 carried out this business in 2016, and will continue to expand market share 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 Company is very confident about the Group's prospects and future profitability.

1.1 Urban Water Treatment

As at 31 December 2016, the Group had entered into a total of 96 service concession arrangements projects, including 90 wastewater treatment plants, 2 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 2016 was 555,550 tonnes, including wastewater treatment projects of 485,000 tonnes, water distribution projects of 30,000 tonnes, sludge treatment plants of 550 tonnes, and reclaimed water treatment plant of 40,000 tonnes. The Group further carried out the sludge treatment and reclaimed water treatment business since 2016, for a purpose of expanding Group's wastewater treatment chain.

As at 31 December 2016, the Group's total daily treatment capacity was 3,363,350 tonnes, representing a satisfied increase of approximately 20% as compared with the capacity of 2,807,800 tonnes as at 31 December 2015. 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 2016 is as follows:

	Daily wastewater treatment capacity	Daily water distribution capacity	Daily reclaimed water treatment capacity	Daily sludge treatment capacity	Total
(Tonnes)					
In operation	2,451,500	–	40,000	350	2,491,850
Not yet start operation/ Not yet transferred	810,000	61,300	–	200	871,500
Total	3,261,500	61,300	40,000	550	3,363,350
(Number of projects)					
In operation	65	–	1	1	67
Not yet start operation/ Not yet transferred	25	2	–	2	29
Total	90	2	1	3	96

	Number of projects	Treatment capacity (Tonnes/Day)	Actual processing volume during the year ended 31 December 2016 (Million Tonnes)
Henan	20	950,000	282.1
Shandong	45	1,304,500	233.0
Anhui	5	225,000	70.7
Jiangsu	5	82,000	22.2
Heilongjiang	5	400,000	76.4
Other provinces/municipalities*	10	300,000	28.2
	90	3,261,500	712.6
Water distribution services	2	61,300	–
Reclaimed water treatment services	1	40,000	0.3
Total	93	3,362,800	712.9
Sludge treatment services	3	550	–
Total	96	3,363,350	712.9

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

1.1.1 Operation Services

As at 31 December 2016, the Group had 65 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 2016, reached 2,451,500 tonnes (31 December 2015: 2,134,500 tonnes), 40,000 tonnes (31 December 2015: Nil), and 350 tonnes (31 December 2015: Nil) respectively. For the year ended 31 December 2016, the annualized utilisation rate for wastewater and reclaimed water treatment plants in operation was approximately 85%. The actual average water treatment tariff for the year ended 31 December 2016 was approximately RMB1.32 per tonne (year ended 31 December 2015: approximately RMB1.3 per tonne). The actual aggregate processing volume for the year ended 31 December 2016 was 712.9 million tonnes (year ended 31 December 2015: 642.8 million tonnes).

Total operation revenue of urban water treatment services recorded for year ended 31 December 2016 was RMB535.7 million (year ended 31 December 2015: RMB549.1 million), the corresponding decrease was primarily due to the new VAT regulations, "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) issued by the Ministry of Finance and the State Administration of Taxation of the PRC (the "CaiShui [2015] No. 78"), which was implemented since 1 July 2015.

1.1.2 Construction Services

The Group entered into a number of service concession arrangements under BOT and PPP contracts in respect of 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, PPP and EPC projects is recognised by using the percentage-of-completion method.

For the year ended 31 December 2016, construction revenue was recognized for 27 projects, including 22 wastewater treatment plants, 2 water distribution plants, and 3 sludge treatment plants which were mainly located in Henan and Shandong provinces in Mainland China. Total construction revenue of those projects for the year ended 31 December 2016 was RMB728.4 million (year ended 31 December 2015: RMB684.9 million), due to an increase in commencement of construction work of new BOT and PPP projects. As at 31 December 2016, the total daily treatment capacity of these service concession arrangements plants, which was still in the construction stage, was 391,500 tonnes, including wastewater treatment plants of 330,000 tonnes, water distribution plants of 61,300 tonnes and sludge treatment plants of 200 tonnes respectively.

1.2 Water Environment Comprehensive Remediation

On 18 August 2016, the Group entered into a PPP project agreement and an operation service agreement in respect of the PPP project for water supply and drainage in the urban area of Rushan City, Shandong Province, after a public tender process. It is estimated that such project, with a total investment budget of approximately RMB481.4 million, has a service concession period of twenty-five years (comprising two years of construction and twenty-three years of operation).

On 7 September 2016, the Group has successfully passed the competitive negotiation process and has been awarded the project contract in relation to the water environment treatment project in Tang River basin in Shancheng District, Hebi City, Henan Province, the PRC. It is estimated that such project, with a total government procurement budget of approximately RMB2,100.0 million, has a construction period of approximately six years (comprising three stages with two-year construction period for each stage). As at 31 December 2016, first stage of such project was under construction.

Analysis of the Group's Water Environment Comprehensive Remediation projects on hand as at 31 December 2016 is as follows:

Project name	Total investment amount *(RMB million)*	Contract time for the project
Water Supply and Drainage PPP Project in the urban area of Rushan City, Shangdong Province	481.4	18 August 2016
Tang River Basin Water Environmental Treatment Project in Shancheng District, Hebi City, Henan Province	2,100.0	19 September 2016

As mentioned above, the Group had 2 water environment comprehensive remediation projects under construction during the year ended 31 December 2016. For the year ended 31 December 2016, total revenue of those projects was RMB144.5 million (year ended 31 December 2015: RMB261.0 million), the corresponding decrease was not comparable primarily due to the Group finalised the Wendeng BT project in 2015 and entered into new water environment comprehensive remediation projects in 2016.

1.3 Rural Water Improvement

On 4 August 2016, Yunan County Environmental Protection Bureau, Yunan Kangda Liangke Environment Treatment Co., Ltd. (郁南康達亮科環境治理有限公司), and the Group initiated an PPP project agreement in respect of the PPP project after a competitive negotiation process. Since then, the Group further expanded to rural water improvement business. The PPP Project comprised subprojects of (i) the wastewater treatment facilities construction, (ii) the supporting pipeline networks construction, and (iii) comprehensive improvement of residential environment in the 15 exemplary central villages, which aims to build villages with ecological agriculture, ecological tourism and ecological cultural characteristic. It is estimated that such project, with a total investment budget of approximately RMB502.0 million, has a service concession period of thirty years (for detailed information please refer to the announcement of the Company dated 4 August 2016).

As at 31 December 2016, the Yunan PPP project was still in the construction stage. The total revenue recorded for the project was RMB115.4 million.

FINANCIAL ANALYSIS

Revenue

For the year ended 31 December 2016, the Group recorded a revenue of RMB1,926.5 million, representing an increase of approximately 5% compared to the previous corresponding period of RMB1,836.5 million. The increase was mainly due to the increase in construction revenue of RMB37.6 million and the increase in financial income of RMB65.8 million, despite of the decrease in operation revenue of RMB13.4 million. The increase in construction revenue was mainly due to the increase in commencement of construction work for the Group's new BOT, PPP and EPC projects, while the decrease in operation revenue was mainly due to the Value-Added Tax effect regarding CaiShui [2015] No. 78 implemented since 1 July 2015. 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 2016 amounted to RMB1,103.2 million, representing an increase of approximately 15% as compared to the previous corresponding period of RMB962.6 million. The increase was due to the increase in construction costs of RMB120.1 million and the increase in operation costs amounted to RMB20.5 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 rural water improvement 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 RMB762.2 million and operation costs of water treatment plants of RMB341.0 million.

Gross Profit Margin

For the year ended 31 December 2016, gross profit margin was approximately 43%, representing a decrease of 5 percentage points as compared to the previous corresponding period of approximately 48%. The decrease was mainly due to (i) the decrease of the construction margin caused by the high margin of the finalised Wendeng BT in 2015, and the construction margin of the new projects in 2016 is at the reasonable level, (ii) the decrease of operation margin caused by the influence from value-added tax and surcharges under CaiShui [2015] No. 78, and (iii) the increase in the proportion of financial income.

Other Income and Gains

The Group recorded other income and gains of RMB127.1 million for the year ended 31 December 2016, representing an increase of approximately 100% as compared to the previous corresponding period of RMB63.4 million. The amount for this period primarily included government grants of RMB104.1 million, which was mainly comprised of VAT refund under CaiShui [2015] No. 78 and grants for environment protection, bank interest income of RMB8.7 million, interest income of RMB8.5 million from loans to third parties, and investment income of RMB3.9 million.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the year ended 31 December 2016 was RMB11.0 million, representing an increase of approximately 10% to RMB10.0 million last year, which was as a result of continuously ongoing market expansion strategy.

Administrative Expenses

Administrative expenses for the year ended 31 December 2016 was RMB235.8 million, representing an increase of approximately 12% as compared to the previous corresponding period of RMB210.0 million. The increase was mainly due to the increase in staff costs of RMB19.5 million, and travelling expenses related to the Group's development and subsidiary management amounting to RMB6.0 million.

Other Expenses

Other expenses for the year ended 31 December 2016 was RMB23.5 million, which included the environmental equipment donation to Shangqiu City Government of RMB17.2 million, foreign exchanges losses of RMB4.5 million, and provision for impairment of other receivables of RMB1.8 million.

Finance Costs

Finance costs for the year ended 31 December 2016 mainly represented interests on interest-bearing bank borrowings and corporate bonds of RMB269.5 million, representing an increase of approximately 12% as compared to RMB240.5 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 RMB1,105.5 million and the average interest rate decreased to 5.11%.

Share of Profits and Losses of Associates

Share of profits and losses of associates was RMB28.1 million, representing a climbed increase of approximately 473% as compared to RMB4.9 million the previous corresponding period, primarily due to the Group's associate Zhongyuan Asset Management Co., Ltd*. (中原資產管理有限公司), in which 15% interest share recorded profit of RMB13.1 million, and the Group's associate Nanchang Qingshanhu Sewage Treatment Co., Ltd.* (南昌青山湖污水處理有限公司), in which 20% interest share recorded profit of RMB14.1 million.

Share of Loss of A Joint Venture

The Group holds 49% equity interest in Jiangxi Kanggan Environmental Technology Co., Ltd.* (江西康贛環保科技有限公司), which engages in the treatment and processing of waste water in Nanchang city of Mainland China. The joint venture was incorporated in 2016 and carried out business for the first year. Share of loss of a joint venture for the year ended 31 December 2016 was RMB1.3 million.

* *For identification purposes only*

Income Tax Expense

Income tax expense for the year ended 31 December 2016 included the current PRC income tax of RMB37.4 million and deferred tax expenses of RMB54.0 million, compared to RMB33.2 million and RMB75.3 million for the previous corresponding period respectively. The Group's effective tax rate for the year ended 31 December 2016 was about 21%, representing a decrease of 3 percentage points as compared with 24% for the last corresponding period, which was mainly due to the share of profits and losses of associates recognised was free of tax.

Financial Receivables

	As at	
	31 December 2016	31 December 2015
	RMB'000	*RMB'000*
Receivables for service concession arrangements	**7,044,612**	5,917,936
Receivables for BT arrangements	**9,643**	307,300
Subtotal of financial receivables	**7,054,255**	6,225,236
Portion classified as current	**(1,268,065)**	(1,375,168)
Non-current portion	**5,786,190**	4,850,068

As at 31 December 2016, the Group's financial receivables was RMB7,054.3 million, representing an increase of approximately 13% as compared to RMB6,225.2 million as at 31 December 2015. 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 wastewater treatment projects through business combination.

Construction contracts

As at 31 December 2016, construction contracts, which are gross amounts due from customers for contract work, was RMB188.4 million, representing an increase of approximately 4% as compared to RMB181.4 million as at 31 December 2015. The increase was primarily due to the increase in construction from Tang River project of water environment comprehensive remediation in Hebi City, Henan Province.

Trade and Bills Receivables

As at 31 December 2016, the Group's trade and bills receivables of RMB765.2 million (31 December 2015: RMB622.0 million) mainly arose from the provision of wastewater treatment and sludge treatment services for urban water treatment projects as well as construction services for the Group's water environment comprehensive remediation projects. The balance increased by RMB143.2 million, mainly due to (i) the increase of urban water treatment projects receivables of approximately RMB177.5 million, (ii) the increase of water environment comprehensive remediation projects receivables of approximately RMB120.6 million, which included BT project receivables of approximately RMB25.2 million arose from repurchase and settlement of Wendeng BT project, and EPC project receivables of approximately RMB95.4 million arose from the progress billing of Tang River project, and (iii) the decrease of bills receivables of approximately RMB154.9 million caused by bills endorsement and discount.

Prepayments, Deposits and Other Receivables

As at 31 December 2016, the Group's prepayments, deposits and other receivables of RMB1,051.0 million (31 December 2015: RMB334.5 million) increased by RMB716.5 million, mainly arose from the increase in loans to third parties of approximately RMB518.4 million according to the business acquisition and construction contract, deposits paid for the Group's new projects through business acquisition of approximately RMB104.6 million, and other operational receivables of approximately RMB188.2 million.

Cash and Cash Equivalents

As at 31 December 2016, the Group's cash and cash equivalents of RMB675.3 million (31 December 2015: RMB1,291.8 million) decreased by RMB616.5 million. The decrease was due to two main reasons: on one hand the Group carried out some investing activities and acquisitions in line with the marketing strategy, on the other hand the Group enhanced the management of cash and cash equivalents to keep the balance on more reasonable level.

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net cash flows used in operating activities[1]	**(199,583)**	(29,985)
Net cash flows used in investing activities	**(1,081,231)**	(327,480)
Net cash flows from financing activities	**655,521**	899,230
Net increase in cash and cash equivalents	**(625,293)**	541,765
Effect of foreign exchange rate changes	**8,808**	2,722
Cash and cash equivalents at beginning of the period	**1,291,770**	747,283
Cash and cash equivalents at end of the period	**675,285**	1,291,770

Note:

(1) For the year ended 31 December 2016 and 2015, the Group invested RMB540.4 million and RMB443.1 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 year ended 31 December 2016 and 2015, the Group would have incurred cash inflows of RMB340.8 million and cash inflows of RMB413.1 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 2016, the Group's trade and bills payables of RMB916.7 million (31 December 2015: RMB768.0 million) increased by RMB148.7 million, which was in line with the Group's construction work carried out and settlements.

Other Payables and Accruals

As at 31 December 2016, the Group's other payables and accruals of RMB263.1 million (31 December 2015: RMB201.8 million) increased by RMB61.3 million, which was mainly due to 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 and water environment comprehensive remediation 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 2016, the carrying amount of the Group's cash and cash equivalents was RMB675.3 million, representing a decrease of approximately RMB616.5 million as compared to RMB1,291.8 million as at 31 December 2015, which was mainly due to the net cash inflows from financing activities of RMB655.5 million, settlements of acquisition and investing payables amounting to RMB860.2 million and cash outflows of RMB518.4 million for loans to third parties from investing activities, and the net cash outflows from operating activities of RMB199.6 million.

The Group's total interest-bearing bank borrowings amounted to RMB4,521.0 million as at 31 December 2016 (31 December 2015: RMB3,890.0 million), over 79% of which bear interest at floating rates.

The Group's total corporate bonds amounted to RMB1,246.8 million as at 31 December 2016 (31 December 2015: RMB885.6 million), which comprised corporate bonds issued on 18 December 2015, 30 June 2016, and 7 December 2016, with an aggregate amount of RMB900.0 million, RMB60.0 million, and RMB300.0 million respectively. All the corporate bonds bear interest at fixed rates. Detailed information about the corporate bonds please refer to the note 14 to the financial statements.

As at 31 December 2016, the Group had banking facilities amounting to RMB59,341.9million, of which RMB53,756.3 million have not been utilised. Of the unutilised banking facilities as at that date, RMB3,956.3 million were unrestricted facilities and the remaining RMB49,800.0 million were restricted facilities, which were mainly limited to be utilized on environment protection infrastructure and comprehensive management.

As at 31 December 2016, the gearing ratio (calculated by net debt divided by capital and net debt) is 63%, while the gearing ratio was 57% as at 31 December 2015. 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 2016 was approximately RMB4,521.0 million, which were repayable within one month to seventeen years and were secured by financial receivables, property, plant and equipment, investment properties, trade receivables and pledged deposits, of which the total amounts of the pledge of assets amounted to RMB4,087.7 million.

Capital Expenditure

During the year ended 31 December 2016, the Group's total capital expenditure were RMB1,590.9 million, compared to RMB878.2 million in 2015. The increase was mainly due to the RMB696.6 million spent on construction and acquisition of BOT and PPP projects and the RMB865.3 million represented the consideration for acquisition of equity interests in subsidiaries, associates, and joint venture.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

(a) On 30 September 2016, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, entered into a share purchase agreement with Chongqing Kangda Investment Co., Ltd.* (重慶康達投資有限公司) ("Chongqing Kangda Investment") for the acquisition of 15% equity interests held by Chongqing Kangda Investment in Zhongyuan Asset Management Co., Ltd* (中原資產管理有限公司) for an aggregate consideration of RMB450.0 million.

    Further details of the transaction are set out in the Company's announcement dated 30 September 2016 and 1 September 2016.

(b) On 15 October 2016, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, entered into a share purchase agreement with Harbin Wanxinglong Industrial Development Co., Ltd.* (哈爾濱萬興隆實業發展有限公司) ("Harbin Wanxinglong"), for the acquisition of 100% equity interests held by Harbin Wanxinglong of Qitaihe Wanxinglong Water Co., Ltd.* (七台河萬興隆水務有限責任公司) ("Qitaihe Wanxinglong"). The consideration is RMB150.0 million, including the consideration for 100% of the equity interest in Qitaihe Wanxinglong, amounted to approximately RMB116.2 million, and the liabilities of Qitaihe Wanxinglong to be assumed by Changqing Kangda, amounted to approximately RMB33.8 million. The daily treatment capacity gained through acquisition of Qitaihe Wanxinglong is 50,000 tonnes for wastewater treatment and 40,000 tonnes for reclaimed water.

    Further details of the transaction are set out in the Company's announcement dated 16 October 2016. As at the date of this announcement, the transaction has been completed.

Save as disclosed above, the Group had no significant investments, acquisitions and disposals of subsidiaries and associated companies during the year ended 31 December 2016.

* *For identification purposes only*

EMPLOYEES AND REMUNERATION POLICIES

The Group had 1,971 employees as at 31 December 2016. 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 2016, the Group did not have any significant contingent liabilities (31 December 2015: 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 2016, 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 16 December 2016, Kangda Investment (Hong Kong) Company Limited, an indirectly wholly-owned subsidiary of the Company, entered into an agreement with China Meiling Environment Holdings Pte. Ltd. (中國美陵環境控股有限公司（新加坡）) ("China Meiling"), for the acquisition of a 100% equity interest in Meiling Environmental Science and Technology (Zibo) Co., Ltd. (美陵環境科技（淄博）有限公司）), which is a wholly-owned subsidiary of China Meiling, at a consideration of RMB377,250,000. Since the acquisition was not yet completed on the date of this announcement, it is not practicable to disclose further details about the acquisition.

PROPOSED FINAL DIVIDEND

The Board has recommended a final dividend of RMB1.6 cents per share for the year ended 31 December 2016 (year ended 31 December 2015: RMB1.6 cents per share) subjected to the approval of the shareholders of the Company at the forthcoming annual general meeting to be held on Thursday, 25 May 2017 (the "Annual General Meeting").

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 22 May 2017, to Thursday, 25 May 2017, 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, 25 May 2017. All transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch 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, 19 May 2017.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders at the Annual General Meeting. The record date for entitlement to the proposed final dividend is Thursday, 15 June 2017. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 13 June 2017 to Thursday, 15 June 2017, 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 Monday, 12 June 2017. The payment of final dividend will be made on Wednesday, 28 June 2017.

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 as at 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 2016. 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 of the Company has reviewed and approved the final results for the year ended 31 December 2016 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.

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 make 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 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2016, 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 2016 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 2016 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, 30 March 2017

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 and Mr. WANG Litong as executive Directors; Mr. ZHUANG Ping as a non-executive Director; and Mr. TSUI Yiu Wa Alec, Mr. PENG Yongzhen and Mr. CHANG Qing as independent non-executive Directors.