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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 2015

HIGHLIGHTS

- Revenue was approximately RMB1,836.5 million, representing an increase of approximately 1% as compared with that of last year.
- Profit attributable to owners of the parent was approximately RMB324.9 million, representing an increase of approximately 10% 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 RMB15.71 cents.
- As at 31 December 2015, total daily wastewater treatment capacity was 2,776,500 tonnes, representing an increase of approximately 12% as compared with that of 2,472,000 tonnes as at 31 December 2014.
- The Board recommends a final dividend of RMB1.6 cents per share for the year ended 31 December 2015.

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 2015 together with the comparative figures for the year ended 31 December 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2015

	<i>Notes</i>	2015 RMB'000	2014 RMB'000
REVENUE	3	1,836,478	1,812,781
Cost of sales		<u>(962,607)</u>	<u>(1,087,579)</u>
Gross profit		873,871	725,202
Other income and gains	4	63,382	47,560
Selling and distribution expenses		(9,975)	(8,461)
Administrative expenses		(210,021)	(169,168)
Other expenses		(38,559)	—
Finance costs	6	(240,450)	(218,978)
Share of profit and loss of an associate		<u>4,899</u>	<u>5,561</u>
PROFIT BEFORE TAX	5	443,147	381,716
Income tax expense	7	<u>(108,500)</u>	<u>(85,241)</u>
PROFIT FOR THE YEAR		<u>334,647</u>	<u>296,475</u>
OTHER COMPREHENSIVE INCOME		<u>—</u>	<u>—</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>334,647</u>	<u>296,475</u>
Attributable to:			
Owners of the parent	8	324,883	294,788
Non-controlling interests		<u>9,764</u>	<u>1,687</u>
		<u>334,647</u>	<u>296,475</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and diluted	8	<u>RMB15.71 cents</u>	<u>RMB16.60 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

		31 December 2015	31 December 2014
	<i>Notes</i>	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		85,363	79,522
Investment properties		1,850	2,108
Investment in an associate		58,582	48,754
Intangible assets		3,154	1,321
Goodwill		43,049	—
Financial receivables	9	4,850,068	4,047,483
Deferred tax assets		36,313	30,239
Prepayments and other receivables		154,960	—
		5,233,339	4,209,427
CURRENT ASSETS			
Inventories		13,041	5,248
Construction contracts	10	181,360	420,670
Financial receivables	9	1,375,168	1,072,687
Trade and bills receivables	11	621,968	503,266
Prepayments, deposits and other receivables		179,544	140,289
Structured deposit		450,400	—
Pledged deposits		119,220	511,940
Cash and cash equivalents		1,291,770	747,283
		4,232,471	3,401,383
CURRENT LIABILITIES			
Trade and bills payables	12	764,354	725,393
Other payables and accruals		201,756	133,596
Interest-bearing bank borrowings	13	1,578,687	1,745,781
Tax payable		18,770	10,190
		2,563,567	2,614,960
NET CURRENT ASSETS		1,668,904	786,423
TOTAL ASSETS LESS CURRENT LIABILITIES		6,902,243	4,995,850

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

		31 December 2015	31 December 2014
	<i>Notes</i>	RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Trade payables	12	3,640	2,974
Interest-bearing bank borrowings	13	2,311,267	1,811,023
Corporate bond	14	885,556	—
Deferred tax liabilities		371,097	257,138
		3,571,560	2,071,135
Total non-current liabilities		3,571,560	2,071,135
Net assets		3,330,683	2,924,715
EQUITY			
Equity attributable to owners of the parent			
Issued capital		16,444	16,444
Reserves		3,183,584	2,826,469
		3,200,028	2,842,913
Non-controlling interests		130,655	81,802
		130,655	81,802
Total equity		3,330,683	2,924,715

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.1 BASIS OF PREPARATION

These financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) 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”), and the disclosure requirements of the rules governing the listing of securities on the Hong Kong Stock Exchange.

The financial statements have been prepared under the historical cost convention except for structured deposit, 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 for the year ended 31 December 2015. 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.

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 in the accounting policy for subsidiaries below. 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 standards for the first time for the current year's financial statements.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
Annual Improvements to IFRSs 2010-2012 Cycle
Annual Improvements to IFRSs 2011-2013 Cycle

The nature and the impact of each amendment is described below:

- (a) Amendments to IAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.
- (b) The *Annual Improvements to IFRSs 2010-2012 Cycle* issued in December 2013 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:
- *IFRS 8 Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.
 - *IAS 16 Property, Plant and Equipment* and *IAS 38 Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.
 - *IAS 24 Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.
- (c) The *Annual Improvements to IFRSs 2011-2013 Cycle* issued in December 2013 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:
- *IFRS 3 Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of IFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) The Annual Improvements to *IFRSs 2011-2013 cycle*: (continued)

- IFRS 13 Fair Value Measurement: Clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 or IAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which IFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in IFRS 13.
- IAS 40 Investment Property: Clarifies that IFRS 3, instead of the description of ancillary services in IAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as the acquisition of investment properties during the year was not a business combination and so this amendment is not applicable.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2. OPERATING SEGMENT INFORMATION

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

- (a) the service concession arrangements segment engages in the design, construction, upgrade and operation of WTPs under the BOT arrangements or the operation of WTPs under the TOT arrangements;
- (b) the BT arrangements segment engages in the design, construction of municipal infrastructures or infrastructures related to WTPs;
- (c) the "others" segment comprises, principally, the Group's management services business, which provides operation and management ("O&M") services, construction services related to other construction service projects and operation services for other water treatments.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on 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, intangible assets, unallocated deferred tax assets, unallocated prepayments, deposits and other receivables, pledged deposits, 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 interest-bearing bank borrowings for daily operation purposes, unallocated other payables and accruals, unallocated trade and bills payables 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 2015	Service concession arrangements RMB'000	BT arrangements RMB'000	Others RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	1,518,736	260,959	56,783	1,836,478
	1,518,736	260,959	56,783	1,836,478
Segment results				
	735,492	151,610	4,941	892,043
<u>Reconciliation:</u>				
Unallocated income and gains				16,562
Corporate and other unallocated expenses				(225,008)
Finance costs				(240,450)
Profit before tax				443,147
Segment assets				
	6,729,977	720,921	48,719	7,499,617
<u>Reconciliation:</u>				
Corporate and other unallocated assets				1,966,193
Total assets				9,465,810
Segment liabilities				
	3,170,103	188,323	37,678	3,396,104
<u>Reconciliation:</u>				
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	1,999	—	1,344	3,343
Unallocated depreciation and amortisation				4,311
Total depreciation and amortisation				7,654
Capital expenditure	2,458	—	103	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)

Year ended 31 December 2014	Service concession arrangements RMB'000	BT arrangements RMB'000	Others RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	1,499,578	167,535	145,668	1,812,781
	1,499,578	167,535	145,668	1,812,781
Segment results				
<i>Reconciliation:</i>				
Unallocated income and gains				23,129
Corporate and other unallocated expenses				(177,629)
Finance costs				(218,978)
Profit before tax				381,716
Segment assets				
	5,287,740	978,173	27,429	6,293,342
<i>Reconciliation:</i>				
Corporate and other unallocated assets				1,317,468
Total assets				7,610,810
Segment liabilities				
	2,230,804	172,617	12,566	2,415,987
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				2,270,108
Total liabilities				4,686,095
Other segment information				
Investment in an associate	48,754	—	—	48,754
Share of profit and loss of an associate	5,561	—	—	5,561
Reversal of impairment of trade receivables	5,114	—	—	5,114
Depreciation and amortisation	1,500	—	1,301	2,801
Unallocated depreciation and amortisation				3,919
Total depreciation and amortisation				6,720
Capital expenditure	2,650	—	476	3,126
Unallocated amounts				1,264
Total capital expenditure*				4,390

* 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

	2015	2014
	RMB'000	RMB'000
Mainland China	<u>1,836,478</u>	<u>1,812,781</u>

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

(b) Non-current assets

	2015	2014
	RMB'000	RMB'000
Mainland China	<u>5,197,026</u>	<u>4,179,188</u>

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 revenues generated from the Group's customers which individually amounted to over 10% of the Group's revenue, are as follows:

Year ended 31 December 2015

	Service concession arrangements RMB'000	BT arrangements RMB'000	Total RMB'000
Customer A	20,389	266,402	286,791
Customer B	219,342	—	219,342
	<u>239,731</u>	<u>266,402</u>	<u>506,133</u>

Year ended 31 December 2014

	Service concession arrangements RMB'000	BT arrangements RMB'000	Total RMB'000
Customer B	398,008	—	398,008
Customer C	267,978	8,119	276,097
	<u>665,986</u>	<u>8,119</u>	<u>674,105</u>

3. REVENUE

The Group has entered into a number of service concession arrangements with the Grantors on a BOT or a TOT basis in respect of its WTPs. These service concession arrangements generally involve the Group as an operator in (i) constructing WTPs for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating WTPs 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 BT arrangements for certain BT customers and agrees with these BT customers to have a repurchase agreement for the construction work ranging from three to four years.

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

	2015 RMB'000	2014 RMB'000
Revenue from construction services	942,626	1,106,077
Revenue from operating services	549,126	448,146
Financial income	344,726	258,558
	<u>1,836,478</u>	<u>1,812,781</u>

4. OTHER INCOME AND GAINS

	2015 RMB'000	2014 RMB'000
Government grants (note (a))	43,054	4,777
Bank interest income	10,407	10,098
Arrangement fee from a BT customer	3,766	—
Foreign exchange differences	3,360	5,071
Rental income less depreciation of investment properties	368	361
Gains on disposals of items of property, plant and equipment, net	129	253
Bargain purchase gain on acquisition of subsidiaries	—	19,654
Reversal of impairment of trade receivables	—	5,114
Others	2,298	2,232
	<u>63,382</u>	<u>47,560</u>

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. PROFIT BEFORE TAX

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

	2015 RMB'000	2014 RMB'000
Cost for construction services	642,150	854,407
Cost for operation services	320,457	233,172
Total cost of services	<u>962,607</u>	<u>1,087,579</u>
Depreciation of property, plant and equipment	7,211	6,310
Amortisation of intangible assets	185	152
Write-off of trade receivables	33,547	—
Reversal of impairment of trade receivables	—	(5,114)
Minimum lease payments under operating leases for buildings	5,562	6,006
Auditors' remuneration	2,900	3,000
Employee benefit expense (including directors' remuneration):		
Wages, salaries and allowances, social securities and benefits	137,132	101,112
Pension scheme contributions (defined contribution scheme)	12,689	10,215
Equity-settled share option expenses	32,232	1,191
Total employee benefit expense	<u>182,053</u>	<u>112,518</u>
Operating lease income	(626)	(619)
Less: depreciation of investment properties	258	258
Rental income less depreciation of investment properties	(368)	(361)
Bank interest income	(10,407)	(10,098)
Government grants	(43,054)	(4,777)
Arrangement fee from a BT customer	(3,766)	—
Bargain purchase gain on acquisition of subsidiaries	—	(19,654)
Gains on disposals of items of property, plant and equipment, net	(129)	(253)
Foreign exchange differences, net	<u>(3,360)</u>	<u>(5,071)</u>

6. FINANCE COSTS

	2015 RMB'000	2014 RMB'000
Interest on bank borrowings	238,485	218,978
Corporate bond	1,965	—
	<u>240,450</u>	<u>218,978</u>

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 wastewater treatment projects, are eligible for tax holiday of a three-year full exemption followed by a three-year half exemption commencing from their respective first year generating operating revenue (the “3+3 Tax Holiday”). At the end of the year, these subsidiaries were qualified for the 3+3 Tax Holiday or in the process of preparation and submission of the required documents to the respective tax authorities to apply for the 3+3 Tax Holiday.

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

	2015	2014
	RMB'000	RMB'000
Current		
– Mainland China	33,184	21,789
Deferred	75,316	63,452
Total tax charge for the year	108,500	85,241

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 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 were issued in December 2014. No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2015 and 2014 in respect of a dilution as the share options outstanding had anti-dilutive effect on the basic earnings per share amounts presented.

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

	2015	2014
	RMB'000	RMB'000
<u>Earnings:</u>		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	<u>324,883</u>	<u>294,788</u>
	2015	2014*
	Number of shares	Number of shares
<u>Shares:</u>		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	<u>2,067,515,000</u>	<u>1,775,431,068</u>

- * The weighted average numbers of ordinary shares for the purpose of the basic and diluted earnings per share calculations for 2014 have been retrospectively adjusted to reflect the 1,499,990,000 shares of the Company issued upon the listing of the Company's shares on Hong Kong Stock Exchange on 4 July 2014.

9. FINANCIAL RECEIVABLES

	31 December 2015 RMB'000	31 December 2014 RMB'000
Receivables for service concession arrangements	5,917,936	4,875,532
Receivables for BT arrangements	307,300	244,638
Net financial receivables	6,225,236	5,120,170
Portion classified as current	1,375,168	1,072,687
Non-current portion	4,850,068	4,047,483

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 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.

10. CONSTRUCTION CONTRACTS

	31 December 2015 RMB'000	31 December 2014 RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	343,156	759,735
Less: Progress billings	(161,796)	(339,065)
Gross amount due from contract customers for contract work	181,360	420,670

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

	Group	
	31 December 2015	31 December 2014
	RMB'000	RMB'000
Trade receivables		
Receivables for service concession arrangements	223,313	197,971
Receivables for BT arrangements	225,698	298,695
Receivables for other construction service projects and other water treatment	2,957	3,000
Provision for impairment	—	—
	451,968	499,666
Bills receivable	170,000	3,600
	621,968	503,266

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 year is as follows:

	31 December 2015	31 December 2014
	RMB'000	RMB'000
Within 3 months	336,636	201,138
4 to 6 months	39,958	173,416
7 to 12 months	17,948	38,581
Over 12 months	57,426	86,531
	451,968	499,666

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 payable, 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.

	31 December 2015 RMB'000	31 December 2014 RMB'000
Bills payable	123,400	153,417
TOT payables	16,985	16,985
Trade payables	627,609	557,965
	<u>767,994</u>	<u>728,367</u>
Less: non-current portion	<u>3,640</u>	<u>2,974</u>
Current portion	<u>764,354</u>	<u>725,393</u>

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

	31 December 2015 RMB'000	31 December 2014 RMB'000
Within 3 months	357,210	256,398
4 months to 6 months	85,165	207,140
7 months to 12 months	151,799	140,660
Over 12 months	173,820	124,169
	<u>767,994</u>	<u>728,367</u>

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

13. INTEREST-BEARING BANK BORROWINGS

	2015			2014		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
– unsecured	4.57-5.52	2016	700,000	6.30-7.00	2015	200,000
Bank loans						
– secured	3.70-6.16	2016	469,456	5.04-6.72	2015	782,000
Current portion of long term bank loans - unsecured	—	—	—	6.46	2015	90,000
Current portion of long term bank loans - secured	4.90-8.00	2016	409,231	6.40-8.52	2015	673,781
			<u>1,578,687</u>			<u>1,745,781</u>
Non-current						
Long term bank loans						
– secured	4.90-8.00	2017-2025	2,311,267	6.40-8.52	2016-2024	1,811,023
			<u>3,889,954</u>			<u>3,556,804</u>
Interest-bearing bank borrowings denominated in						
– RMB			3,734,965			3,556,804
– Hong Kong dollars			154,989			—
			<u>3,889,954</u>			<u>3,556,804</u>

14. CORPORATE BOND

	2015	2014
	RMB'000	RMB'000
Unsecured corporate bond	<u>885,556</u>	<u>—</u>

Corporate bond with a principal amount of RMB900,000,000 issued by Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, to certain institutional investor on 18 December 2015 pursuant to the subscription agreement dated 11 December 2015, which is due on 18 December 2022, bears interest at the rate of 5.5% per annum, with an option for the issuer to adjust the interest rate at the end of the third and the fifth year.

15. EVENTS AFTER THE REPORTING PERIOD

On 1 December 2015, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, entered into an agreement with Shandong Guohuan Industrial Investment Co., Ltd. (山東國環產業投資有限公司) (“Shandong Guohuan”), for the acquisition of 90% equity interests in Liaocheng Municipal Dong’e County Guohuan Sewage Treatment Co., Ltd. (聊城東阿縣國環污水處理有限公司), Liaocheng Municipal Jiaming Guohuan Sewage Treatment Co., Ltd. (聊城嘉明國環污水處理有限公司), and Linqing Municipal Guohuan Sewage Treatment Co., Ltd. (臨清市國環污水處理有限公司), which are wholly-owned subsidiaries of Shandong Guohuan, at a consideration of RMB257,400,000, of which RMB112,960,000 has been paid in 2015. These three target companies have been acquired on 21 January 2016, without material influence on the Group for further disclosure.

The board of directors of the Company recommends a final dividend of RMB1.6 cents per ordinary share for the year ended 31 December 2015. 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

BUSINESS REVIEW

The principal business of the Group includes constructions and operations in wastewater treatment business. The coverage of the Group's wastewater treatment plants and water distribution plants has been extended to 76 projects in 10 provinces and municipalities all across Mainland China.

In the future, the Group will continuously pursue expanding market share in the wastewater treatment industry by investing in new projects as well as seizing merger and acquisition opportunities. We are very confident about the Group's prospects and future profitability.

Service Concession Arrangements

As at 31 December 2015, the Group had entered into total of 76 service concession arrangements projects including 75 wastewater treatment plants and 1 water distribution plant. Total daily treatment capacity for new wastewater projects secured for the year ended 31 December 2015 was 304,500 tonnes, including a 50,000 tonnes project for Shangqiu City Sixth Wastewater Treatment Plant Phase I* (商丘市第六污水處理廠一期), a 30,000 tonnes project for Xinzheng City Xingang Industry Assembly Zone Wastewater Treatment Plant* (新鄭市新港產業聚集區污水處理廠), a 20,000 tonnes project for Dandong City New District Wastewater Treatment Plant Phase I* (丹東新區污水處理廠一期), a 40,000 tonnes project for Dong'e Wastewater Treatment Plant* (東阿污水處理廠), a 30,000 tonnes project for Jiaming Economic Development District Wastewater Treatment Plant* (嘉明經濟開發區污水處理廠), a 40,000 tonnes project for Phase II Expansion Project of Linqing Municipal Wastewater Treatment Plant* (臨清市污水處理廠二期擴建項目), a 30,000 tonnes project for Xinzheng Municipal Xuedian Wastewater Treatment Plant* (新鄭市薛店污水處理廠), a 40,000 tonnes project for phase II for Yanggu County Guohuan Sewage Treatment Plant* (陽谷縣國環污水處理廠二期), a 15,000 tonnes project for expansion project of Hebi Sewage Treatment Plant* (鶴壁污水處理廠一期擴建) and an aggregated 9,500 tonnes for 5 Wastewater Treatment Plants in Gaomi City* (高密市朝陽等五鄉鎮污水處理廠).

As at 31 December 2015, the Group's total daily wastewater treatment capacity was 2,776,500 tonnes, representing a satisfying increase of approximately 12% as compared with that of approximately 2,472,000 tonnes as at 31 December 2014. In view of the increasingly highly competitive wastewater investment market in Mainland China, an approximate 12% increase of the Group's wastewater project portfolio was a positive result of the Group's market expansion and development plan. The water supply project remained same as at 31 December 2014.

* For identification purposes only

Analysis of the Group's service concession arrangements projects on hand as at 31 December 2015 is as follow:

	Daily wastewater treatment capacity	Daily water distribution capacity	Total
(Tonnes)			
In operation	2,134,500	—	2,134,500
Not yet start operation/Not yet transferred	642,000	31,300	673,300
Total	2,776,500	31,300	2,807,800
(Number of projects)			
In operation	53	—	53
Not yet start operation/Not yet transferred	22	1	23
Total	75	1	76
			Actual processing volume during the year ended 31 December 2015 (Million Tonnes)
	Number of projects	Treatment capacity (Tonnes/Day)	
Henan	20	981,300	243.0
Shandong	32	919,500	213.1
Anhui	5	225,000	67.8
Jiangsu	4	62,000	21.7
Other provinces/municipalities*	14	588,700	97.23
	75	2,776,500	642.83
Water distribution services	1	31,300	—
	76	2,807,800	642.83

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

Operation Services

As at 31 December 2015, the Group had 53 wastewater treatment projects in operation in Mainland China. Total daily treatment capacity in operation of wastewater treatment plants as at 31 December 2015 reached 2,134,500 tonnes (31 December 2014: 1,920,000 tonnes). For the year ended 31 December 2015, the annualised utilisation rate for wastewater treatment plants in operation was approximately 85%. The actual average wastewater treatment tariff for the year ended 31 December 2015 was approximately RMB1.3 per tonne. The actual aggregate processing volume for the year ended 31 December 2015 was 642.83 million tonnes, which contributed by subsidiaries recorded a revenue of RMB546.1 million for the year ended 31 December 2015 (year ended 31 December 2014: RMB444.2 million).

Construction Services

The Group entered into a number of service concession arrangements under BOT (Build-Operate-Transfer) contracts in respect of its wastewater treatment services and water distribution services. Under International Financial Reporting Interpretation Committee 12 Service Concession Arrangements, the Group recognises the construction revenue with reference to the fair value of the construction service delivered in the building phase. The fair value of such service is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the inception date of service concession agreement. Construction revenue is recognised by using the percentage-of-completion method.

For the year ended 31 December 2015, construction revenue was recognised for 17 BOT projects, including 16 wastewater treatment plants and 1 water distribution plant, which were mainly located in the Henan and Shandong provinces in Mainland China. Total construction revenue of those BOT projects was RMB631.1 million (year ended 31 December 2014: RMB811.2 million) due to decrease in commencement of construction work caused by a decrease in new BOT projects. As at 31 December 2015, the total daily treatment capacity of these wastewater treatment plants and one water distribution plant, which were still in the construction stage, was 366,300 tonnes. Most of these projects are expected to commence operation during the year ending 31 December 2016.

BT Arrangements

As at 31 December 2015, the Group had four BT (Build-Transfer) projects for the construction of municipal water supply, drainage network and municipal infrastructure. For the year ended 31 December 2015, the Group did not enter into any new BT projects.

For the year ended 31 December 2015, the Group finalised and entered into the repurchase agreement with the customer of Wendeng BT project, according to which the Group further finalised the subcontract with suppliers and recognised construction revenue and cost. During the year ended 31 December 2015, the Group's BT arrangements contributed a revenue of RMB261.0 million (year ended 31 December 2014: RMB167.5 million).

Other Services

For the year ended 31 December 2015, the Group's other services contributed a revenue of RMB56.8 million (year ended 31 December 2014: RMB145.7 million). Such decrease was mainly due to the major construction work conducted for the Jiaozuo municipal government in the year 2014.

FINANCIAL ANALYSIS

Revenue

For the year ended 31 December 2015, the Group recorded a revenue of RMB1,836.5 million, representing a same level compared to the previous corresponding period of RMB1,812.8 million. The slight increase was mainly due to the decrease in construction revenue of RMB163.5 million, despite of the increase in operating revenue of RMB101.0 million and the increase in financial income of RMB86.2 million, respectively. The decrease in construction revenue was mainly due to the decrease in commencement of construction work for the Group's BOT projects; while the increase in operation revenue as well as financial income was mainly due to the increase in the Group's total wastewater treatment capacity. For details, please refer to *Business Review-Operation Services* and *Construction Services* above.

Cost of Sales

The Group's cost of sales for the year ended 31 December 2015 amounted to RMB962.6 million, representing a slight decrease as compared to the previous corresponding period of RMB1,087.6 million. The decrease was due to the decrease in construction costs of RMB212.2 million, despite of the increase in operating costs amounted to RMB87.2 million. Cost of sales mainly included construction costs of RMB642.1 million and operating costs of wastewater treatment plants of RMB320.5 million. For details, please refer to *Business Review-Service Concession Arrangements-Operation Services* and *Construction Services* and *BT arrangement* above.

Gross Profit Margin

For the year ended 31 December 2015, gross profit margin was approximately 48%, representing an increase of 8 percentage points as compared to the previous corresponding period of approximately 40%. The gross profit margin for service concession arrangements increased to approximately 45% compared to the previous corresponding period of approximately 41%, due to the increase in the proportion of operation margin, which is higher than construction margin. Gross margin for BT arrangements increased to approximately 70% compared to the previous corresponding period of approximately 58%, primarily due to a higher margin recognised related to Wendeng BT during the year ended 31 December 2015 than Jilin BT during the previous corresponding period. For details, please refer to *Business Review – BT arrangements*. Gross profit margin for other services remained at a similar level for the year ended 31 December 2015 with a minor decrease of 1 percentage point, due to the different phases of construction work conducted for the Jiaozuo municipal government.

Other Income and Gains

The Group recorded other income and gains of RMB63.4 million for the year ended 31 December 2015, representing an increase of approximately 33% as compared to the previous corresponding period of RMB47.6 million. The amount for this period primarily included government grants of RMB43.1 million, bank interest income of RMB10.4 million and foreign exchange gains of RMB3.4 million.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the year ended 31 December 2015 was RMB10.0 million, representing an increase of approximately 18% to RMB8.5 million last year, which was as a result of continuously ongoing market expansion strategy.

Administrative Expenses

Administrative expenses for the year ended 31 December 2015 was RMB210.0 million, representing an increase of approximately 24% as compared to the previous corresponding period of RMB169.2 million. The increase was mainly due to the increase in staff costs of RMB12.3 million, as a result of an increase in expenses related to share option scheme amounting to RMB31.0 million.

Other Expenses

Other expenses for the year ended 31 December 2015 was RMB38.6 million, no other expenses were recorded in the previous corresponding period, this is mainly due to the write-off of Jilin BT receivable during the year.

Finance Costs

Finance costs for the year ended 31 December 2015 mainly represented interests on interest-bearing bank borrowings of RMB240.5 million, representing an increase of approximately 10% as compared to RMB219.0 million the previous corresponding period. The increase in finance costs was mainly due to the increase of interest-bearing bank borrowings in line with the increase in project portfolio and the Group's market expansion strategy.

Share of Profit and Loss of an Associate

Share of profit and loss of an associate was RMB4.9 million, representing a decrease of approximately 13% as compared to RMB5.6 million the previous corresponding period, primarily due to the Group's associate Nanchang Qingshanhu Project Co., Ltd* (南昌青山湖污水處理有限公司), which has a daily wastewater treatment capacity of 500,000 tonnes.

Income Tax Expense

Income tax expense for the year ended 31 December 2015 included the current PRC income tax of RMB33.2 million and deferred tax expenses of RMB75.3 million, compared to RMB21.8 million and RMB63.5 million for the previous corresponding period, respectively. The Group's effective tax rate for the year ended 31 December 2015 was about 24%, representing an increase of 2 percentage points to 22% for the last corresponding period, which was mainly due to the increase of tax effect of tax losses not recognised.

Financial Receivables

	As at	
	31 December 2015 RMB'000	31 December 2014 RMB'000
Receivables for service concession arrangements	5,917,936	4,875,532
Receivables for BT arrangements	307,300	244,638
Subtotal of financial receivables	6,225,236	5,120,170
Portion classified as current	1,375,168	1,072,687
Non-current portion	4,850,068	4,047,483

As at 31 December 2015, the Group's financial receivables was RMB6,225.2 million, representing an increase of approximately 22% as compared to RMB5,120.2 million as at 31 December 2014. The increase was primarily due to the increase in construction of our BOT service concession arrangements projects, acquisition of wastewater treatment projects through business combination and finalised repurchase of Wendeng BT.

Construction Contracts

As at 31 December 2015, construction contracts, which are gross amounts due from customers for contract work, was RMB181.4 million, representing a decrease of approximately 57% as compared to RMB420.7 million as at 31 December 2014. The decrease was primarily due to the repurchase of Wendeng BT project.

Trade and Bills Receivables

As at 31 December 2015, the Group's trade and bills receivables of RMB622.0 million (31 December 2014: RMB503.3 million) mainly arose from the provision of wastewater treatment services for our service concession arrangements projects as well as construction services for our BT projects. The balance increased by RMB118.7 million, mainly due to: firstly, the increase of service concession arrangements receivables of approximately RMB25.3 million; secondly, the increase of bill receivables of approximately RMB150.0 million arose from repurchase and settlement of Wendeng BT project.

Prepayments, Deposits and Other Receivables

As at 31 December 2015, the Group's prepayments, deposits and other receivables of RMB334.5 million (31 December 2014: RMB140.3 million) increased by RMB194.2 million, mainly arose from the increase in deposits paid for our new service concession arrangements through business acquisition.

Cash and Cash Equivalents

As at 31 December 2015, the Group's cash and cash equivalents of RMB1,291.8 million (31 December 2014: RMB747.3 million) increased by RMB544.5 million. The increase was mainly due to increase of Group's interest-bearing bank borrowings as well as our newly issued corporate bond.

	For the year ended 31 December	
	2015 RMB'000	2014 RMB'000
Net cash flow used in operating activities ⁽¹⁾	(29,985)	(634,384)
Net cash flow used in investing activities	(327,480)	(754,642)
Net cash flow from financing activities	899,230	1,860,437
Net increase in cash and cash equivalents	541,765	471,411
Effect of foreign exchange rate changes	2,722	310
Cash and cash equivalents at beginning of the period	747,283	275,562
Cash and cash equivalents at end of the period	<u>1,291,770</u>	<u>747,283</u>

Note:

- (1) For the year ended 31 December 2015 and 2014, we invested RMB443.1 million and RMB793.2 million, respectively, in our BOT and TOT (Transfer-Operate-Transfer) projects. Such investments were counted towards cash flow used in operating activities. Under the relevant accounting treatment, part of such cash outflow used in operating activities was used to form the non-current portion of financial receivables in our consolidated statement of financial position. For the year ended 31 December 2015 and 2014, we would have incurred cash inflows of RMB413.1 million and RMB158.8 million, respectively, if our investments in BOT and TOT activities were not accounted for as cash flows used in operating activities.

Trade and Bills Payables

As at 31 December 2015, the Group's trade and bills payables of RMB768.0 million (31 December 2014: RMB728.4 million) increased by RMB39.6 million, which was in line with the Group's construction work carried out and settlements.

Other Payables and Accruals

As at 31 December 2015, the Group's other payables and accruals of RMB201.8 million (31 December 2014: RMB133.6 million) increased by RMB68.2 million, which was mainly due to the consideration payables for service concession arrangement project through business acquisition and other operational payables.

Liquidity and Financial Resources

The Group's principal liquidity and capital requirements primarily relate to investments in wastewater treatment 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 2015, the carrying amount of the Group's cash and bank deposits was RMB1,411.0 million, representing an increase of approximately RMB151.8 million as compared to RMB1,259.2 million as at 31 December 2014, which was mainly due to net cash inflows from financing activities of RMB899.2 million, settlements of acquisition payables amounting to RMB267.4 million and cash out of RMB450.4 million for structured deposits from investing activities and net cash outflows from operating activities of RMB30.0 million.

The Group's total interest-bearing bank borrowings amounted to RMB3,890.0 million as at 31 December 2015 (31 December 2014: RMB3,556.8 million), over 91% of which bear interest at floating rates.

On 21 December 2015, the Group issued corporate bonds with an aggregate amount of RMB900.0 million with a term of seven years, the unit par value is RMB100 and the interest rate is 5.5%, with an option to adjust interest rate at the end of the third and the fifth year. As at 31 December 2015, the Group's corporate bonds amounted to RMB885.6 million.

As at 31 December 2015, the Group had banking facilities amounting to RMB58,348.5 million, of which RMB53,500.4 million have not been utilised. Of the unutilised banking facilities as at that date, RMB3,750.4 million were unrestricted facilities and the remaining RMB49,750 million were restricted facilities, which are limited to be utilised on investments in wastewater treatment projects only.

As at 31 December 2015 the gearing ratio (calculated by net debt divided by capital and net debt) is 57%, while the gearing ratio was 52% as at 31 December 2014. The increase of gearing ratio is mainly due to the increase of the interest-bearing bank borrowings and issuance of corporate bonds.

Charges on the Group's Assets

Outstanding balance of interest-bearing bank borrowings as at 31 December 2015 was approximately RMB3,890.0 million, which were repayable within three months to ten 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 RMB3,946.8 million.

Capital Expenditure

During the year ended 31 December 2015, the Group's total capital expenditures were RMB878.2 million, compared to RMB1,293.9 million in 2014. The decrease was mainly due to RMB557.7 million spent on construction and acquisition of wastewater treatment plants and RMB315.9 million represented the consideration for acquisition of equity interests in subsidiaries.

DEVELOPMENT STRATEGIES AND FUTURE DEVELOPMENT

With the expertise and operation experience accumulated in the wastewater treatment industry, despite intensifying industrial competition, in 2015, the Group still managed to acquire a number of new projects, including the Shangqiu City Sixth Wastewater Treatment Plant Phase I* (商丘市第六污水處理廠一期), the Xinzheng City Xingang Industry Assembly Zone Sewage Treatment Plant* (新鄭市新港產業聚集區污水處理廠) and the BOT project of the Dandong City New District Wastewater Treatment Plant Phase I* (丹東新區污水處理廠一期). In addition, the Group has also acquired 90% of the equity interests in three water companies in Liaocheng City, Shandong Province (i.e., Liaocheng Municipal Dong'e County Guohuan Sewage Treatment Co., Ltd.* (聊城東阿縣國環污水處理有限公司), Liao-Cheng Municipal Jiaming Guohuan Sewage Treatment Co., Ltd.* (聊城嘉明國環污水處理有限公司) and Linqing Municipal Guohuan Sewage Treatment Co., Ltd.* (臨清市國環污水處理有限公司)), 70% of the equity interests in Xinzheng Xinkang Water Co., Ltd.* (新鄭新康水務有限公司) and 70% of the equity interests in Xinzheng Municipal Xuedian Sewage Treatment Plant* (新鄭市薛店污水處理廠). Apart from the aforesaid municipal wastewater exclusive operation service agreements newly entered into and the new projects of acquiring wastewater treatment plants, during 2015, the Group has also achieved breakthrough in acquiring wastewater treatment and sludge treatment projects in the small towns in Shandong and Jiangsu province.

2015 was a year of profound changes for the environmental protection industry in China. With the implementation of the newly revised "Environmental Protection Law", the promulgation of the "Water Pollution Prevention and Control Action Plan (《水污染防治行動計畫》)" ("Water Ten Plan (水十條)") and the comprehensive, large-scale and factory network integration features of water environmental projects under the model of public-private partnership ("PPP"), it is expected that investment in environmental protection in the 13th Five-Year Plan will amount to more than RMB4 trillion. The enactment of the aforesaid new environmental policies and the launch of the new PPP model will intensify competition in China's environmental protection industry while also further expanding the space of development of the industry.

* For identification purposes only

Against a backdrop of the aforesaid environmental changes of industry, the Group has carried out further precise adjustment to its development strategies. Regarding business development strategy, the Group will continue to focus on investment in Mainland China and operation of wastewater treatment facilities, while leveraging the trends of the environmental protection industry to rapidly expand into other areas of the water industrial chain, such as comprehensive river basin management, sponge city, sludge, heat pumps and point source management, so as to expand our own business to increase recurring source of profit.

Regarding external cooperation strategy, the Group has actively established close cooperative partnership with external sources by signing strategic cooperation agreements. Currently the Group has signed a series of strategic cooperation agreements with state-owned enterprises, local governments and large financial institutions, including the strategic cooperation agreement entered into in August 2015 with Beijing Aerospace Petrochemical Technology and Equipment Engineering Corporation* (北京航太石化技術裝備工程公司), a subsidiary of China Aerospace Science and Technology Corporation* (中國航太科技集團公司), and 702 Research Institute of China Shipbuilding Industry Corporation* (中船重工集團公司第七〇二研究所); and the strategic cooperation agreement entered into in August 2015 with Industrial and Commercial Bank of China Limited, Chongqing branch (中國工商銀行股份有限公司重慶市分行).

Regarding internal management strategy, the Group has actively reformed its internal management structure to increase management efficiency, and to reduce management costs and enhance profitability level with the business department as the accounting unit. Currently the Company has completed reform of its management structure, and has established the Investment Commerce Department, Technology Business Department, Water Environmental Business Department, Transportation Management Business Department, Construction Management Business Department, Energy Investment Business Department, Industrial Point Sources Business Department and Small Town Business Department according to the types and functions of businesses, having carried out effective integration of internal resources.

Looking forward, the Group plans to further consolidate its leading position in the industry, secure the growth opportunities of the water industry, and take advantage of the opportunities brought about by new environmental policies and the PPP model to integrate the Group's external and internal resources, so as to continue pursuit of profit growth, strengthen shareholder base, and enhance the financial position of the Group and the brand of the Company for continuous securing of greater profit margins.

* *For identification purposes only*

USE OF THE NET PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds from the Global Offering amounted to approximately HK\$1,480.6 million. The use of proceeds has been consistent with the disclosure in the prospectus of the Company dated 23 June 2014 (the “Prospectus”), and the respective use of the net proceeds until 31 December 2015 is as follows:

	HK\$ million		
	Available	Utilised	Unutilised
Expanding our business and project portfolio	1,026.6	1,026.6	—
– through BOT projects and TOT projects, including expansion and upgrade projects	454.0	454.0	—
– through business acquisition	572.6	572.6	—
Repayment of existing short-term bank borrowings	259.4	259.4	—
Working capital and general corporate purpose	129.7	129.7	—
Purchase of electronic systems and software	64.9	2.1	62.8
	<u>1,480.6</u>	<u>1,417.8</u>	<u>62.8</u>

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

(a) On 1 December 2015, Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd* (重慶康達環保產業(集團)有限公司) (“Chongqing Kangda”), an indirectly wholly-owned subsidiary of the Company, entered into a share purchase agreement with Shandong Guohuan, for the acquisition of 90% equity interests held by Shandong Guohuan in each of the three project companies for an aggregate consideration of RMB257,400,000, which is constituted by RMB115,200,000 under the Dong’e Agreement, RMB70,200,000 under the Jiaming Agreement and RMB72,000,000 under the Linqing Agreement. The total aggregated daily wastewater treatment capacity is 110,000 tonnes.

Further details of the transaction are set out in the Company’s announcement dated 1 December 2015. The three project companies were acquired by the Group on 21 January 2016.

(b) On 31 December 2015, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, entered into a share purchase agreement with Xinzheng Xinyuan, for the acquisition of 70% equity interests held by Xinzheng Xinyuan of Xinzheng Xinkang for a consideration of RMB42,000,000. The daily wastewater treatment capacity gained through acquisition of Xinzheng Xinkang is 30,000 tonnes.

Further details of the transaction are set out in the Company’s announcement dated 31 December 2015. As at the date of this annual results announcement, the transaction has not 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 2015.

EMPLOYEES AND REMUNERATION POLICIES

The Group had 1,775 employees as at 31 December 2015. 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 2015, the Group did not have any significant contingent liabilities (31 December 2014: 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 2015, 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 1 December 2015, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, entered into an agreement with Shandong Guohuan Industrial Investment Co., Ltd.* (山東國環產業投資有限公司) (“Shandong Guohuan”), for the acquisition of 90% equity interests in Liaocheng Municipal Dong’e County Guohuan Sewage Treatment Co., Ltd.* (聊城東阿縣國環污水處理有限公司), Liaocheng Municipal Jiaming Guohuan Sewage Treatment Co., Ltd.* (聊城嘉明國環污水處理有限公司), and Linqing Municipal Guohuan Sewage Treatment Co., Ltd.* (臨清市國環污水處理有限公司), which are wholly-owned subsidiaries of Shandong Guohuan, at a consideration of RMB257,400,000, of which RMB112,960,000 has been paid in 2015. These three target companies have been acquired on 21 January 2016, without material influence on the Group for further disclosure.

* *For identification purposes only*

PROPOSED FINAL DIVIDEND

The Board has recommended a final dividend of RMB1.6 cents per share for the year ended 31 December 2015 (year ended 31 December 2014: Nil) subjected to the approval of the shareholders of the Company at the forthcoming annual general meeting to be held on 2 June 2016 (the “Annual General Meeting”).

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 31 May 2016, to 2 June 2016, 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 2 June 2016. 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 30 May 2016.

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 Monday, 13 June 2016. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 8 June 2016 to Monday, 13 June 2016, 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 Tuesday, 7 June 2016. The payment of final dividend will be made on Wednesday, 22 June 2016.

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 annual results 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 2015. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

AUDIT COMMITTEE

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 2015 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 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 2015.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2015, 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 2015 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 2015 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 2016

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.