



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



2014

INTERIM REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Zhuang Ping

Independent non-executive Directors

Mr. Tsui Yiu Wa Alec
Mr. Yuan Shaoli
Mr. Song Qianwu

AUDIT COMMITTEE

Mr. Tsui Yiu Wa Alec (Chairman)
Mr. Yuan Shaoli
Mr. Song Qianwu

REMUNERATION COMMITTEE

Mr. Yuan Shaoli (Chairman)
Mr. Song Qianwu
Mr. Gu Weiping

NOMINATION COMMITTEE

Mr. Zhao Juanxian (alias, Zhao Junxian) (Chairman)
Mr. Zhang Weizhong
Mr. Tsui Yiu Wa Alec
Mr. Yuan Shaoli
Mr. Song Qianwu

COMPANY SECRETARY

Ms. Chan Yin Wah

AUTHORISED REPRESENTATIVES

Mr. Zhang Weizhong
Ms. Liu Zhiwei

REGISTERED OFFICE

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Hutchins Drive
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Grand Cayman KY1-1111
Cayman Islands

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

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Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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CORPORATE INFORMATION

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Hong Kong

LEGAL ADVISERS

As to Hong Kong law and US law:

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The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:

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6/F NCI Tower
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the PRC

As to Cayman Islands law:

Conyers Dill & Pearman (Cayman) Limited
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COMPLIANCE ADVISER

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The Gateway Harbour City
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Tsim Sha Tsui
Kowloon
Hong Kong

PRINCIPAL BANKS

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

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
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Central
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STOCK CODE

6136

COMPANY WEBSITE

<http://www.kangdaep.com>

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Investments in the environmental protection industry, which includes pollution and emission reduction and control, has experienced rapid growth as the PRC Government and society have become increasingly aware of the importance of environmental protection. The PRC Government has identified the environmental protection industry as a strategic industry for long-term development. As the public expectation of environmental quality continues to rise, investment in the environmental protection industry is expected to grow rapidly in the near future. Total investments in the environmental protection industry in the 12th Five-Year Plan period is expected to reach RMB5 trillion, which is more than twice of the amount invested during the 11th Five-Year Plan period, including comprehensively enhancing wastewater treatment capacity, accelerating the upgrade of wastewater treatment plants, strengthening the construction of sludge treatment and disposal facilities, promoting the use of recycled water and strengthening the management of facility operations. According to Frost & Sullivan, the environmental protection industry in China is expected to continue to expand in the near future, and investment in wastewater treatment, as an important part of environmental protection, is also expected to increase.

China is one of the 13 most water-deficient countries in the world. In recent years, total water resources in China decreased from approximately 3.1 trillion m³ in 2010 to 2.8 trillion m³ in 2013. Total wastewater discharge in China has been increasing gradually due to continuous economic development, growing population and urbanization. Also, the growth of water intensive industries, such as power generation, is expected to provide opportunities for the development of the wastewater treatment market, as these industries put further pressure on scarce water resources. China's municipal wastewater treatment industry is at a stage of rapid development, with higher standards in wastewater treatment, broader treatment scope and stricter government regulation.

The wastewater treatment industry is currently in a stage of "operation and productivity expansion". At such stage, construction of pipeline networks and newly-built capacity lead to the improvement of wastewater treatment volume, while project investment increment and marketization mainly benefit operating efficiency. Driven by national strategies, enterprises and capital market investors increasingly focus on the environmental protection industry.

MANAGEMENT DISCUSSION AND ANALYSIS

DEVELOPMENT STRATEGIES AND FUTURE DEVELOPMENT

Kangda International Environmental Company Limited (the “Company” and its subsidiaries collectively referred to as the “Group” or “Kangda International Environmental”) is the leading privately-owned company for investing in and operating wastewater treatment facilities in China and are among the first privately-owned participants in the wastewater treatment industry in China, with over 18 years of experience in successfully implementing wastewater treatment projects for customers. The Group has accumulated significant technical expertise and operational experience, which enables it to select accurate process technologies and utilize efficient management strategies in time in line with the status of projects. The Group aims to maintain its position as a leading privately-owned wastewater treatment service provider in China, through, among others, continuing to expand its existing project portfolio and extending its geographic reach, pursue selective business acquisition opportunities, strengthen its technical capabilities and project management to further improve the operational efficiency, expand into other business activities ancillary to wastewater treatment to capitalize on developments in the industry value chain and strengthen the Group’s talent base through enhanced recruiting and training programs.

The Group continued its efforts to offer our customers customised and integrated wastewater treatment solutions and services through service concession arrangements under build-operate-transfer (“BOT”) and transfer-operate-transfer (“TOT”) models, with a focus on the annual business objectives set out by the Group at the beginning of the year. The Group continued to promote the construction of new BOT projects and upgrading projects and the operation of TOT acquisitions to enhance the wastewater treatment capacities of the Group, which laid a foundation for accomplishment of annual tasks as well as the expansion and development of the Group.

In conclusion, these opportunities are instrumental to the accelerated development of the Group, which also imposes higher requirements on the services and competitiveness of the Group.

To this end, the Group will leverage on capital derived from being a company listed in Hong Kong, an international financial center, to maximize and utilize favorable resources at home and abroad, and strive to develop and expand the Group’s principal business in strict compliance with the Corporate Governance Code contained in Appendix 14 (the “Corporate Governance Code”) to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), in accordance with the Group’s established strategic planning and objectives.

For internal management, the Group will continue to strengthen risk control, optimize debt structure, enhance staff skill training, increase investments in technical research and development and quantify the examination, rewards and punishment mechanism to generate greater benefits for the Group through active and positive control.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is the leading privately-owned company for investing in and operating wastewater treatment facilities in China. The Group offers its customers, who are principally municipal, district or county level governments in China or their designees, customised and integrated wastewater treatment solutions and services mainly through service concession arrangements under BOT and TOT models.

Wastewater Treatment Services

As at 30 June 2014, the Group had a total of 48 wastewater treatment projects in the construction and operation stages, including 33 BOT projects and 15 TOT projects, with an aggregate daily wastewater treatment capacity of approximately 1.917 million tonnes, representing an increase in newly-executed contracts of 5 BOT projects and 1 TOT project, a total of 6 new projects, with an aggregate daily treatment capacity of 232,000 tonnes over the corresponding period last year.

As at 30 June 2014, the Group had an aggregate daily treatment capacity for projects put into official operation of approximately 1.46 million tonnes, representing an increase of 5 projects newly put into operation with an aggregate daily treatment capacity of 180,000 tonnes over the corresponding period last year. For the six months ended 30 June 2014 (the "Period"), the Group had an actual wastewater treatment utilization rate of approximately 89.68% and average wastewater treatment unit charges of RMB1.04 per tonne.

As at 30 June 2014, the Group had 15 projects to be put into operation with an aggregate daily wastewater treatment capacity of approximately 457,000 tonnes, representing an increase of 5 new projects to be put into operation with 202,000 tonnes over the corresponding period last year.

As at 30 June 2014, the Group continued to upgrade 9 wastewater treatment projects under existing concession contracts. Upon completion, their effluent quality will reach grade A of level 1 and wastewater treatment service fees will be increased in various degrees.

Building upon the Group's early-mover advantage and its strong project execution track record, the Group has established a reputation as a wastewater treatment provider that delivers high-quality customised services, which will help the Group secure new projects from both new and existing customers in the future. For instance, the Group acquired 100% and 90% equity interests respectively in Puyang Water (as defined below) and four wastewater treatment plants owned by Shandong Guohuan (as defined below) and was granted the concession rights of a TOT and a BOT projects in Suihua, Heilongjiang Province, for the period from July to August 2014, which would bring additional concession rights of 360,000 tonnes per day for the Group (please refer to the announcements of the Company dated 24 July 2014, 10 August 2014 and 20 August 2014, respectively, for details), including 240,000 tonnes per day in operation and 120,000 tonnes per day under construction.

Water Supply Services

As at 30 June 2014, the Group had another water supply project with a daily production capacity of approximately 31,300 tonnes, remaining at the same level of the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Services

As at 30 June 2014, the Group also provided reclaimed water services, operation and management (“O&M”) services and other construction services.

FINANCIAL REVIEW

Results of Operation

For the Period, the Group recorded a revenue from its principal business of RMB864.0 million, representing a significant year-on-year increase of 50.2%, and realized an accumulated net profit of RMB124.7 million, representing a year-on-year increase of 18.4%.

Revenue

The Group’s revenue increased by RMB288.7 million, or approximately 50.2%, from RMB575.3 million in the six months ended 30 June 2013 to RMB864.0 million in the Period. The increase in revenue was primarily due to the increase in the number of the Group’s service concession arrangements and the increase in the wastewater treatment volume under concession arrangements.

(i) Service Concession Arrangements

Construction Revenue: Construction revenue from BOT projects increased from RMB187.6 million, or approximately 157.0%, in the six months ended 30 June 2013 to RMB482.1 million in the Period. The increase in construction revenue was mainly due to 6 new projects (5 new BOT projects, 1 upgrading project) and continued construction of the expansion or upgrade projects during the Period.

Operation Revenue: Operation revenue from service concession arrangements increased from RMB156.9 million, or approximately 23.8%, in the six months ended 30 June 2013 to RMB194.2 million in the Period. The increase in operation revenue primarily resulted from the increase in the number of the operating BOT and TOT projects and the increase in the wastewater treatment volume.

Financial Income: Financial income from service concession arrangement projects increased from RMB79.3 million, or approximately 35.2%, in the six months ended 30 June 2013 to RMB107.2 million in the Period. The increase in financial income primarily resulted from the increase in financial receivables, which was in turn due to the increase in the number of the service concession arrangements and continued investment during the construction period under the concession arrangements.

MANAGEMENT DISCUSSION AND ANALYSIS

(ii) Build-Transfer (“BT”) Arrangements

Construction Revenue: No construction revenue from BT projects was recorded during the Period, all the main constructions of BT projects of the Group were completed as at 31 December 2013 and the Group did not acquire any new BT projects in 2014.

Financial Income: Financial income from BT projects decreased from RMB3.9 million in the six months ended 30 June 2013 to RMB3.0 million in the Period. The decrease in financial income during the Period was mainly due to the fact that the receipt of purchase amounts for our BT projects, which resulted in a decrease in the financial receivables.

(iii) Other Services

Revenue from other services increased to RMB77.5 million from RMB1.4 million, primarily relating to the revenue from a construction project undertaken by the Group for Jiaozuo Municipal Government.

Cost of Sales

Cost of sales increased by RMB207.3 million, or approximately 59.9%, from RMB345.8 million for the six months ended 30 June 2013 to RMB553.1 million in the Period. The increase in cost of sales primarily resulted from the increase in construction cost for concession arrangements and other services.

(i) Service Concession Arrangements

Construction Costs: Construction costs under service concession arrangements increased by RMB235.4 million from RMB150.9 million, or approximately 156.0%, in the six months ended 30 June 2013 to RMB386.3 million in the Period, due to 6 new projects under construction (5 new BOT projects, 1 upgrading project) and continued construction of the expansion or upgrade projects during the Period.

Operation Costs: Operation costs under service concession arrangements increased by RMB15.6 million from RMB81.5 million, or approximately 19.1%, in the six months ended 30 June 2013 to RMB97.1 million in the Period. The increase in operation costs was mainly due to the increase in the costs of electricity, chemicals, labor and sludge treatment incurred in the Period as a result of the operation of additional projects and the increase in the wastewater treatment volume of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

(ii) BT Arrangements

Construction Costs: No construction costs for BT projects in the Period was incurred, primarily due to all the main construction of BT projects were completed as at 31 December 2013 and the Group had not acquire any new BT projects in 2014.

(iii) Other Services

Cost of sales for O&M and other construction service projects increased by RMB68.2 million from RMB1.5 million the six months ended 30 June 2013 to RMB69.7 million in the Period, primarily relating to the cost incurred in relation to a construction project undertaken by the Group for Jiaozuo Municipal Government.

Gross Profit and Gross Profit Margin

In view of the foregoing, gross profit of the Group increased by RMB81.4 million, or approximately 35.5%, from RMB229.5 million in the six months ended 30 June 2013 to RMB310.9 million in the Period. Gross profit margin declined to 36.0% in the Period, 3.9 percentage points lower than approximately 39.9% in the six months ended 30 June 2013, mainly due to the fact that the Group were at the stage of rapid expansion and the high proportion of construction revenue.

(i) Service Concession Arrangements

Construction Profit and Profit Margin: Gross profit for the construction portion of the service concession arrangements increased by RMB59.1 million, or approximately 161.0%, from RMB36.7 million in the six months ended 30 June 2013 to RMB95.8 million in the Period. The Group's gross profit margin was 19.9%, remaining at a similar level with the corresponding period last year (19.6%).

Operation Profit and Profit Margin: Gross profit for the operation portion of the service concession arrangements increased by RMB21.7 million, or approximately 28.8%, from RMB75.4 million in the six months ended 30 June 2013 to RMB97.1 million in the Period. Our gross profit margin during the same period increased to 50.0% from 48.1%, primarily due to the fact that part of the WTPs adjusted the unit price of water treatment/service fee.

(ii) BT Arrangements

Construction Profit and Profit Margin: No construction profit from BT projects in the Period was recorded, primarily due to all the main constructions of BT projects were completed as at 31 December 2013 and the Group had not acquire any new BT projects in 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

(iii) Other Services

The increase in profit and profit margin of other services in the Period was primarily because a construction project undertaken by the Group for Jiaozuo Municipal Government entered the construction period.

Other Income and Gains

Other income and gains decreased by RMB19.9 million, or approximately 67.0%, from RMB29.7 million in the six months ended 30 June 2013 to RMB9.8 million in the Period. Other income and gains decreased primarily resulted from the recognition of the followings in the first half of 2013 had not occurred again in the first half of 2014:

- (i) increase in bargain purchase gain on acquisition of Beijing Chang Sheng Siyuan Environmental Protection Technology Co., Ltd. (“Beijing Chang Sheng”) of RMB18.5 million; and
- (ii) the advance the Group provided for the preliminary work required for the BT project in Jilin Province increased by RMB7.5 million.

Selling and Distribution Expenses

Selling and distribution expenses increased by RMB0.9 million, or approximately 37.5%, from RMB2.4 million for the six months ended 30 June 2013 to RMB3.3 million for the Period. The increase in selling and distribution expenses was primarily due to increases in average employee compensation and increases in marketing expenses, travel and entertainment expenses in relation to the business expansion.

Administrative Expenses

Administrative expenses increased by RMB12.6 million, or 24.4%, from RMB51.7 million for the six months ended 30 June 2013 to RMB64.3 million for the Period. The increase in administrative expenses was primarily a result of:

- (i) a rise in salaries, welfare and benefits because of the increase in the number and average compensation of employees;
- (ii) professional fees, primarily including costs incurred relating to consultants engaged for technical advice and expenses relating to the global offering (as defined in the Company’s prospectus dated 23 June 2014 (the “Prospectus”)); and
- (iii) increases in travelling, transportation and entertainment expenses due to further expanded geographical reach of the Group’s business.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Costs

Finance costs increased by RMB17.7 million, or approximately 22.5%, from RMB78.7 million for the six months ended 30 June 2013 to RMB96.4 million for the Period. The increase was primarily a result of an increase in the amount of the outstanding loans used to finance the business expansion.

The Group's average loan interest rates was 6.94% from January to June 2014, nearly the same as 6.92% recorded from January to June 2013.

Gain on Investment in an Associate

Gain on investment in an associate increased by RMB2.6 million, or approximately 236.4%, from RMB 1.1 million for the six months ended 30 June 2013 to RMB3.7 million for the Period. The increase was primarily a result of the merger and acquisition of Beijing Chang Sheng on 30 April 2013, and gain on investment in an associate commenced calculation since May 2013.

Income Tax Expense

Income tax increased by RMB16.1million, or approximately 82.1%, from RMB19.6 million for the six months ended 30 June 2013 to RMB35.7 million for the Period. The increase in income tax expense was primarily a result of the increase in profit before tax and expiry of the tax holiday of a three-year full exemption followed by a three-year half exemption applicable to some plants, and the facts that some of the project companies were still in the construction phase, which are not required to apply for any tax benefits in this stage, as well as the gain on purchase of Beijing Chang Sheng at premium was not required to pay any taxes.

Profit and Net Profit Margin

Due to the above mentioned reasons, profit for the Period increased by RMB19.4 million, or approximately 18.4%, from RMB105.3 million for the six months ended 30 June 2013 to RMB124.7 million for the Period. Net profit margin decreased from 18.3% for the six months ended 30 June 2013 to 14.4% for the Period, primarily due to the rapid expansion, increase in the contribution from construction business and decrease in gross profit margin.

Basic and Diluted Earnings Per Share

Basic and diluted earnings per share for the Period amounted to approximately RMB0.08 (for the six months ended 30 June 2013: RMB0.07).

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

The Group generally finances its daily operations from internally generated cash flows and bank borrowings. As at 30 June 2014, the Group had total assets of approximately RMB5,345.4 million (as at 31 December 2013: RMB4,713.8 million) and net assets of approximately RMB1,477.4 million (as at 31 December 2013: RMB1,352.7 million). The Group's cash and bank balances as at 30 June 2014 amounted to approximately RMB318.9 million (as at 31 December 2013: RMB275.6 million).

Taking into account the cash reserves and net current assets of the Group, the Group's financial position is healthy, positioning the Group advantageously to expand its core business and seek other opportunities in order to achieve its business objectives.

Financial Conditions

Trade and bills receivables

	As at	
	30 June 2014 RMB'000	31 December 2013 RMB'000
Net trade receivables	211,717	168,414
Bills receivables	20,524	60,948
	<u>232,241</u>	<u>229,362</u>

- (i) As at 30 June 2014, net trade receivables were increased by RMB43.3 million when compared with 31 December 2013, primarily due to the increase in the numbers of the Group's service concession arrangements and the increase in the wastewater treatment volume under concession arrangements.
- (ii) As at 30 June 2014, bill receivables were decreased by RMB40.4 million when compared with 31 December 2013, primarily due to the reason that bill receivables were partly settled through endorsement transfer and recovery of matured bill amount during the Period.

Construction Contracts

Construction contracts, which are gross amounts due from customers for contract work, increased by RMB67.8 million, or approximately 12.3%, from RMB551.3 million as at 31 December 2013 to RMB619.1 million as at 30 June 2014. The increase was primarily due to the revenue with respect to the construction projects of the Group for Jiaozuo Municipal Government.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Receivables

	As at	
	30 June 2014 RMB'000	31 December 2013 RMB'000
Receivables for service concession arrangements	3,731,477	3,179,130
Receivables for BT arrangements	83,166	106,542
Subtotal of trade receivables	3,814,643	3,285,672
Portion classified as current	(760,713)	(714,398)
Non-current portion	3,053,930	2,571,274

Financial receivables increased by RMB528.9 million, or approximately 16.1%, from RMB3,285.7 million as at 31 December 2013 to RMB3,814.6 million as at 30 June 2014. The increase was primarily due to the increase in concession right projects and the increase in the revenue from the construction projects.

Cash and cash equivalents

As at 30 June 2014, the cash and cash equivalents increased by RMB62.7 million, primarily due to the net cash inflows arising from the change of the Company's loans.

	For the six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Net cash flow used in operating activities ⁽¹⁾	(317,399)	(101,048)
Net cash flow from/(used in) investing activities	79,216	(214,719)
Net cash flow from financing activities	281,420	30,162
Net increase/(decrease) in cash and cash equivalents	43,237	(285,605)
Effect of foreign exchange rate changes, net	70	(2,005)
Cash and cash equivalents at beginning of the period	275,562	543,754
Cash and cash equivalents at end of the period	318,869	256,144

Note:

- (1) As at 30 June 2013 and 30 June 2014, RMB186.7 million and RMB379.2 million, respectively, were invested in BOT and TOT 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 the interim consolidated statement of financial position. Cash inflows from operating activities of RMB85.7 million and RMB61.8 million as at 30 June 2013 and 30 June 2014, respectively, would have been incurred if investments in BOT and TOT activities were not accounted for as cash flows used in operating activities.

MANAGEMENT DISCUSSION AND ANALYSIS

Trade and bills payables

	As at	
	30 June 2014 RMB'000	31 December 2013 RMB'000
Trade payables	494,751	327,965
Bills payable	109,026	178,883
TOT payables	33,507	37,044
	637,284	543,892
Less: non-current portion	6,259	6,440
Current portion	631,025	537,452

Trade and bills payables primarily consist of bills payables, TOT payables and trade payables. The trade and bills payables increased from approximately RMB543.9 million as at 31 December 2013 to approximately RMB637.3 million as at 30 June 2014, representing an increase of approximately 17.2%, primarily due to many projects entering into the construction period of main works during the first half in 2014, which caused the significant increases in the payments for civil works as well as equipment installment and procurement.

As at 30 June 2014, the balance of acquisition consideration due to TOT projects slightly decreased as compared to that as at 31 December 2013.

Bank borrowings

	Effective Interest Rate (%)	As at	
		30 June 2014 RMB'000	31 December 2013 RMB'000
Current			
Short term bank loans	6.30-7.80	339,000	315,000
Current portion of long term bank loans	6.40-8.52	810,034	470,341
		1,149,034	785,341
Non-current			
Long term bank loans	6.40-8.52	1,820,503	1,802,048
		1,820,503	1,802,048
		2,969,537	2,587,389

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of Assets

Outstanding balance of loans as at 30 June 2014 was approximately RMB2,969.5 million. Bank loans were repayable within three months to ten years and were secured by financial receivables, property, plant and equipment, investment properties and trade and bills receivables, which the total amounts of the pledge of assets amounted to RMB3,099.0 million.

As at 30 June 2014, unutilised banking facilities amounted to approximately RMB6,260.0 million. Of the RMB6,260.0 million unutilised banking facilities as at that date, RMB4,490.0 million were unrestricted facilities and the remaining RMB1,770.0 million were restricted facilities, which are limited to be utilised on investments in wastewater treatment projects only.

Gearing Ratio

As at 30 June 2014, the gearing ratio (calculated by total borrowings divided by total assets) was 55.6%, while the gearing ratio is 54.9% as at 31 December 2013. The gearing ratio from 31 December 2013 to 30 June 2014 did not have significant changes.

Capital commitments

The following table sets forth the Group's commitments with respect of service concession arrangements as at the dates indicated:

	As at	
	30 June 2014 RMB'000	31 December 2013 RMB'000
Contracted, but not provided for	810,863	1,167,467
Authorised, but not contracted for	360,918	345,120

The contracted, but not provided for capital commitments decreased by RMB356.6 million, or approximately 30.5%, as at 30 June 2014 primarily because of part of the outstanding projects entered into the periods of subject construction as well as commissioning and completion. At the same time, the Group's authorised, but not contracted for, amount increased by RMB15.8 million, or approximately 4.6%, primarily because new project agreements had been authorised but not contracted prior to 30 June 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICY

The Group had 1,370 employees as at 30 June 2014. 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 provide external and interal training programs to the Group's employees.

The Group has adopted a share option scheme pursuant to which the Directors may grant options to individuals including Directors, employees or consultants of the Group to acquire shares of the Company. The Directors consider that the share option scheme assists in recruiting and retaining high caliber executives and employees.

MATERIAL INVESTMENTS

The Group did not make any material investments as of 30 June 2014.

MATERIAL LITIGATIONS

As at 30 June 2014, the Group is currently not involved in any material legal proceedings, nor is the Group aware of any pending or potential material legal proceedings involving the Group.

CONTINGENT LIABILITIES

As of 30 June 2014, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE RISK

Majority of the subsidiaries of the Company operates in the PRC with most of the transactions denominated and settled in RMB. As of 30 June 2014, except for the bank deposits 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.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

For the Period, there was no material acquisitions and disposal of subsidiaries and affiliated companies.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPLIANCE OF CODE OF CORPORATE GOVERNANCE

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

In view of the listing of the Company’s shares on the main board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 4 July 2014 (the “Listing Date”), the code provisions of the Corporate Governance Code are not applicable to the Company for the Period. However, since the Listing Date, the Company has adopted the Corporate Governance Code as its code of conduct in corporate governance. The Board is of the view that the Company has complied with the code provisions set out in the Corporate Governance Code from the Listing Date up to the date of this report.

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

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

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

OTHER INFORMATION

INTERIM DIVIDEND

The Board did not recommend the payment of interim dividend for the Period (six months ended 30 June 2013: Nil).

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The Company was successfully listed on the Main Board of the Stock Exchange on 4 July 2014. The initial public offering by way of the International Placing (as defined in the Prospectus) and the Hong Kong Public Offering (as defined in the Prospectus) is well received by the investors.

The Company intends to use the net proceeds from the Global Offering (as defined in the Prospectus) for the following purposes:

- (i) approximately 65% is expected to be used primarily for expanding the business of the Group and project portfolio, including (a) approximately 35% is expected to be used to expand the project portfolio of the Company, in particular, BOT projects and TOT projects, including expansion and upgrade projects, in China, to take advantage of PRC Government's plan to expand investments in waste water treatment facilities; and (b) approximately 30% is expected to be used for acquiring other appropriate waste water treatment facilities with potential, which could enhance the capacity of waste water treatment of the Company, and enable the Company to tap into new markets where we could establish a customer relationship domestically;
- (ii) approximately 20% is expected to be used for repayment of existing short-term bank borrowings;
- (iii) approximately 10% is expected to be used to fund our working capital and general corporate purposes; and
- (iv) approximately 5% is expected to be used to purchase relevant electronic equipment and software to improve and upgrade the Company's information technology systems, including the implementation of relevant applications such as the ERP system, to facilitate business expansion and management.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

The shares of the Company were listed on the Stock Exchange on 4 July 2014, later than 30 June 2014 (the end of this reporting period), therefore the requirements set out in Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO") and Section 352 of the SFO are not applicable to the Company/ Directors as at 30 June 2014.

As at 4 July 2014 (the Listing Date), the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed issuers (the "Model Code"), contained in the Listing Rules, were as follows:

(i) Interests and short positions in the Company

Name of Director	Capacity in which interests are held/ Nature of interests	Number of Shares	Approximate percentage of issued share capital of the Company
Mr. Zhao Juanxian ⁽¹⁾	Person acting in concert/long position	1,019,922,004 ⁽¹⁾	51.00%
	Person acting in concert/short position	75,000,000 ⁽¹⁾	3.75%

Notes:

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

Saved as disclosed above, as at 4 July 2014, none of the Directors and the chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(ii) Interests and short portions in associated corporations

None of the Directors or chief executive of the Company has any interests or short positions in the shares or underlying shares or debentures of any associated corporation of the Company.

OTHER INFORMATION

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES

As stated above, the Company's shares were not listed on the Stock Exchange as at 30 June 2014. Accordingly, no disclosure of interests or short positions in any shares or underlying shares of the Company was required to be made to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as at 30 June 2014.

As at 4 July 2014 (the Listing Date), to the best of the knowledge of the Directors, the following persons (excluding the Directors or chief executive of the Company) had interests of 5% or more of the issued share capital of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Interest and short positions in the issued Shares of the Company

Name	Capacity/Nature of interest	Number of Shares	Percentage of interests in the issued share capital of the Company ⁽¹⁾
Mr. Zhao Sizhen ⁽¹⁾	Interest in controlled corporation/ long position	1,019,922,004	51.00%
	Interest in controlled corporation/ short position	75,000,000	3.75%
Kangda Holdings Company Limited ⁽²⁾ ("Kangda Holdings")	Beneficial owner/long position	1,019,922,004	51.00%
	Beneficial owner/short position	75,000,000	3.75%
Baring Private Equity Asia V Holding (5) Limited ⁽³⁾	Beneficial owner/long position	405,077,996	20.30%
The Baring Asia Private Equity Fund V, L.P. ⁽³⁾	Interest in controlled corporation/ long position	402,444,989	20.10%
Baring Private Equity Asia GP V, L.P. ⁽³⁾	Interest in controlled corporation/ long position	405,077,996	20.30%
Baring Private Equity Asia GP V Limited ⁽³⁾	Interest in controlled corporation/ long position	405,077,996	20.30%
Jean Eric Salata ⁽³⁾	Interest in controlled corporation/ long position	405,077,996	20.30%

Notes:

- (1) By virtue of Mr. Zhao Juanxian acting in concert with Mr. Zhao Sizhen, under the SFO, Mr. Zhao Juanxian is deemed to be interested in Mr. Zhao Sizhen's interests in our Company.
- (2) Kangda Holdings is wholly-owned and controlled by Mr. Zhao Sizhen and Mr. Zhao Sizhen is therefore deemed to be interested in the Shares held by Kangda Holdings.

OTHER INFORMATION

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

Save as disclosed above, as at 4 July 2014, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Period, none of Director is aware that the Directors or any substantial shareholders (within the meaning of the Listing Rules) of the Company and their respective associates have any business or interest that competes or may compete with the business of the Group or have or may have any conflict of interest with the Group.

PUBLIC FLOAT

According to public information available and to the knowledge of the Directors so far, at least 25% of the total issued share capital of the Company was held in public hands pursuant to the requirement of the Listing Rules as at the date of this interim report.

EVENTS AFTER THE REPORTING PERIOD

- (a) The Company's shares were listed on the Stock Exchange on 4 July 2014 and in connection with the Company's Global Offering (as defined in the Prospectus), 500,000,000 ordinary shares of the Company of HK\$0.01 each were issued at a price of HK\$2.8 per share for a total cash consideration, before expenses, of approximately HK\$1,400,000,000. On 25 July 2014, the over-allotment option was partially exercised and 67,515,000 ordinary shares of the Company of HK\$0.01 each were issued at a price of HK\$2.8 per share for a total cash consideration, before expenses, of approximately HK\$189,042,000. After the completion of the Capitalisation Issue (as defined in the Prospectus), the Global Offering (as defined in the Prospectus) and the completion of the over-allotment, the total number of ordinary shares of the company is 2,067,515,000.
- (b) On 24 July 2014, 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 Dalian Langxinming Environmental Engineering Co., Ltd. (大連朗新明環境工程有限公司) (the "Dalian Langxinming"), for the acquisition of 100% equity interests of Guodian Langxinming Puyang Water Co., Ltd (國電朗新明濮陽水務有限公司) ("Puyang Water"), which is a wholly-owned subsidiary of Dalian Langxinming, for a consideration of RMB56.88 million.

OTHER INFORMATION

- (c) On 10 August 2014, Chongqing Kangda entered into an agreement with Shandong Guohuan Industrial Investment Co., Ltd (山東國環產業投資有限公司) (the “Shandong Guohuan”) for the acquisition of 90% equity interests held by Shandong Guohuan in each of the following companies for an aggregate consideration of RMB270,900,000: Yanggu County Guohuan Sewage Treatment Co., Ltd. (陽穀縣國環污水處理有限公司), Xin County Guohuan Sewage Treatment Co., Ltd. (莘縣國環污水處理有限公司), Liaocheng Municipal Guohuan Sewage Treatment Co., Ltd. (聊城市國環污水處理有限公司), Jiexiang County Guohuan Sewage Treatment Co., Ltd. (嘉祥縣國環污水處理有限公司).
- (d) On 19 August 2014, Chongqing Kangda and Suihua Kangda Environmental Protection Water Company Limited (綏化康達環保水務有限公司), wholly-owned subsidiaries of the Company, entered into concession agreements with Suihua Municipal Bureau of Housing and Urban-Rural Development (綏化市住房和城鄉建設局) (“Suihua Construction Bureau”) (the “Concession Agreements”). After the completion of a public tender process, pursuant to the Concession Agreements, Suihua Construction Bureau agreed to (i) transfer Phase I of Suihua Municipal Wastewater Treatment Plant (綏化市污水處理廠) (the “Plant”) to Suihua Kangda (the “TOT Project”) and to grant Suihua Kangda the concession rights to exclusively operate and maintain the TOT Project during the period of thirty years starting from the date of the confirmation letter relating to asset handover base on the Concession Agreements (the “Concession Period”) at a consideration of RMB93 million; and (ii) grant Suihua Kangda the concession rights to exclusively construct, operate and maintain of Phase II of the Plant (the “BOT Project”) during the Concession Period. Pursuant to the Concession Agreements, the Plant shall be transferred back to Suihua Construction Bureau after the expiration of the Concession Period.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme on 14 June 2014 (the “Adoption Date”). The following is a summary of principal terms of the Share Option Scheme:

Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to give the Eligible Persons (as defined in the following paragraph) an opportunity to have a personal stake in the Company and help motivate them to optimise their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executives (as defined below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Who may join in the Share Option Scheme

The Board may, at its absolute discretion, grant options (“Option(s)”) to subscribe for such number of shares of the Company in accordance with the terms set out in the Share Option Scheme to:

- (a) any executive Director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group (“Executive”), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group (“Employee”);

OTHER INFORMATION

- (b) a Director or proposed Director (including an independent non-executive Director) of any member of the Group;
- (c) a direct or indirect shareholder of any member of the Group;
- (d) a supplier of goods or services to any member of the Group;
- (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;
- (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and
- (g) an associate of any of the persons referred to in paragraphs (a) to (f) above (the person referred above are the “Eligible Persons”).

Maximum number of Shares

The maximum number of shares of the Company immediately following the completion of the Global Offering (as defined in the Prospectus) in respect of which Options may be granted under the Share Option Scheme was 50,000,000, representing 10% of the issued share capital of the Company.

As at 30 June 2014, no Option was granted under the Share Option Scheme.

Maximum entitlement of each participant

No Option may be granted to any one person such that the total number of shares of the Company issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period exceeds 1% of the Company's issued share capital from time to time.

Where any further grant of Options to such an Eligible Person would result in shares of the Company issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares of the Company in issue, such further grant shall be separately approved by the shareholders in general meeting with such Eligible Person and his or her associates abstaining from voting.

The Company shall send a circular to the shareholders disclosing the identity of the Eligible Person, the number and terms of Options to be granted (and Options previously granted) to such Eligible Person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription price) of Options to be granted to such Eligible Person must be fixed before the approval of the shareholders of the Company and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those Options.

Offer and grant of Options

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of shares of the Company as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the shares on the Stock Exchange or an integral multiple thereof).

OTHER INFORMATION

Minimum holding period, vesting and performance target

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of any of shares of the Company shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before Option can be exercised.

Subscription price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

- (a) the nominal value of a shares of the Company;
- (b) the closing price of a shares of the Company as stated in the Stock Exchange's daily quotations sheet on the offer date; and
- (c) the average closing price of a shares of the Company as stated in the Stock Exchange's daily quotations for the 5 business days (as defined in the Listing Rules) immediately preceding the offer date.

The remaining life of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years. Since the adoption of the Share Option Scheme, no options had been granted under the Share Option Scheme.

OTHER INFORMATION

AUDIT COMMITTEE

The Company has established an audit committee pursuant to a resolution of the Directors passed on 30 October 2013 in compliance with Rule 3.21 of and paragraph C.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems, oversee the audit process and perform other duties and responsibilities as assigned by the Board. At present, the audit committee consists of three independent non-executive Directors, being Mr. Tsui Yiu Wa Alec, Mr. Yuan Shaoli and Mr. Song Qianwu, and Mr. Tsui Yiu Wa Alec is the chairman of the audit committee.

The audit committee has reviewed the unaudited interim results of the Group for the Period. The audit committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members of the Company.

REMUNERATION COMMITTEE

The Company has established a remuneration committee on 30 October 2013 with written terms of reference in compliance with paragraph B.1 of the Corporate Governance Code and Corporate Governance Report as set out in Rule 3.25 and Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objects and make recommendations to the Board on the remuneration package of individual executive Director and senior management. The remuneration committee consists of three members, namely Mr. Yuan Shaoli, Mr. Song Qianwu and Mr. Gu Weiping, and Mr. Yuan Shaoli is the chairman of the remuneration committee.

NOMINATION COMMITTEE

The Company has established a nomination committee on 30 October 2013 with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary function of the nomination committee is to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive. The nomination committee consists of five members, comprising Mr. Zhao Juanxian (alias, Zhao Junxian), Mr. Tsui Yiu Wa Alec, Mr. Yuan Shaoli, Mr. Song Qianwu and Mr. Zhang Weizhong, and Mr. Zhao Juanxian is the chairman of the nomination of committee.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the Model Code as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors have confirmed that they have fully complied with the required standard set out in the Model Code throughout the period since 4 July 2014 (the Listing Date) and up to the date of this report.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

For the Period and throughout the period since the Listing Date and up to the date of this report, neither the Company, nor any of its subsidiaries, purchased, sold or redeemed any of its listed securities, provided that the Capitalization Issue (as defined in the Prospectus) took place immediately prior to the listing on 4 July 2014 and the Company allotted and issued 67,515,000 additional shares on 30 July 2014 to cover over-allocations in the International Placing (as defined in the Prospectus).

REVIEW OF THE INTERIM RESULTS

The Group's unaudited interim financial information for the Period have been reviewed by the auditor of the Company, Ernst & Young, in accordance with International Standard on Review Engagements 2410 "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" issued by International Auditing and Assurance Standards Board. The unaudited interim financial information of the Group for the Period has been reviewed by the audit committee of the Company.

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

Hong Kong, 27 August 2014

INDEPENDENT REVIEW REPORT



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To the board of directors of Kangda International Environmental Company Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 28 to 56, which comprises the condensed consolidated statement of financial position of Kangda International Environmental Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) as at 30 June 2014 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) issued by the International Accounting Standards Board.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young
Certified Public Accountants
Hong Kong
27 August 2014

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

For the six-month period ended 30 June 2014

	Notes	For the six-month period ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
REVENUE	4	863,999	575,331
Cost of sales		(553,105)	(345,794)
Gross profit		310,894	229,537
Other income and gains	5	9,815	29,674
Selling and distribution expenses		(3,338)	(2,448)
Administrative expenses		(64,324)	(51,655)
Other expenses		—	(2,639)
Finance costs	7	(96,376)	(78,688)
Share of profit and loss of an associate		3,705	1,084
PROFIT BEFORE TAX	6	160,376	124,865
Income tax expense	8	(35,685)	(19,580)
PROFIT FOR THE PERIOD		124,691	105,285
Other comprehensive income		—	—
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		124,691	105,285
Attributable to:			
Owners of the parent		123,762	105,168
Non-controlling interests		929	117
		124,691	105,285
Earnings per share attributable to ordinary equity holders of the parent			
– Basic and diluted (expressed in RMB per share)	9	0.08	0.07

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2014

	<i>Notes</i>	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	80,506	80,303
Investment properties		2,238	2,366
Investment in an associate		51,098	50,393
Intangible assets		1,126	845
Financial receivables	11	3,053,930	2,571,274
Deferred tax assets		29,410	15,449
Total non-current assets		3,218,308	2,720,630
CURRENT ASSETS			
Inventories		4,002	3,108
Construction contracts	12	619,114	551,325
Financial receivables	11	760,713	714,398
Trade and bills receivables	13	232,241	229,362
Prepayments, deposits and other receivables		135,738	80,098
Pledged deposits	14	56,463	139,324
Cash and cash equivalents	14	318,869	275,562
Total current assets		2,127,140	1,993,177
CURRENT LIABILITIES			
Trade and bills payables	15	631,025	537,452
Other payables and accruals		44,954	53,456
Interest-bearing bank borrowings	16	1,149,034	785,341
Tax payable		8,769	4,915
Total current liabilities		1,833,782	1,381,164
NET CURRENT ASSETS		293,358	612,013
TOTAL ASSETS LESS CURRENT LIABILITIES		3,511,666	3,332,643
NON-CURRENT LIABILITIES			
Trade and bills payables	15	6,259	6,440
Interest-bearing bank borrowings	16	1,820,503	1,802,048
Deferred tax liabilities		207,483	171,425
Total non-current liabilities		2,034,245	1,979,913
Net assets		1,477,421	1,352,730

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2014

	<i>Notes</i>	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
EQUITY			
Equity attributable to owners of the parent			
Issued capital		—	—
Reserves		1,464,143	1,340,381
		1,464,143	1,340,381
Non-controlling interests		13,278	12,349
Total equity		1,477,421	1,352,730

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2014

	Attributable to owners of the parent						Non- controlling interests	Total equity	
	Owners' equity	Issued capital	Share premium	Merger reserve	Special reserve	Retained profits			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			
As at 31 December 2013	—	—	601,378*	368,355*	—*	370,648*	1,340,381	12,349	1,352,730
Profit for the period (Unaudited)	—	—	—	—	—	123,762	123,762	929	124,691
Other comprehensive income (Unaudited)	—	—	—	—	—	—	—	—	—
Total comprehensive income (Unaudited)	—	—	—	—	—	123,762	123,762	929	124,691
Transfer to special reserve ** (Unaudited)	—	—	—	—	8,377	(8,377)	—	—	—
Utilisation of special reserve** (Unaudited)	—	—	—	—	(8,377)	8,377	—	—	—
As at 30 June 2014 (Unaudited)	—	—	601,378*	368,355*	—*	494,410*	1,464,143	13,278	1,477,421
As at 31 December 2012	—	—	601,378	368,355	—	139,085	1,108,818	7,283	1,116,101
Profit for the period (Unaudited)	—	—	—	—	—	105,168	105,168	117	105,285
Other comprehensive income (Unaudited)	—	—	—	—	—	—	—	—	—
Total comprehensive income (Unaudited)	—	—	—	—	—	105,168	105,168	117	105,285
Transfer to special reserve ** (Unaudited)	—	—	—	—	5,012	(5,012)	—	—	—
Utilisation of special reserve** (Unaudited)	—	—	—	—	(5,012)	5,012	—	—	—
Capital contribution from a non-controlling shareholder (Unaudited)	—	—	—	—	—	—	—	4,000	4,000
As at 30 June 2013 (Unaudited)	—	—	601,378	368,355	—	244,253	1,213,986	11,400	1,225,386

* These reserve accounts comprise the consolidated reserve of RMB1,464,143,000 (31 December 2013: RMB1,340,381,000) in the unaudited interim condensed consolidated statement of financial position as at 30 June 2014.

** From 14 February 2012, the Group provided for and utilised the safety production expense fund according to Circular on Printing and Issuing the Management Measures on the Enterprises Production Safety Expense of Enterprises Appropriation and Utilisation (2012 No.16) issued by the Ministry of Finance and the State Administration of Work Safety.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2014

	For the six-month period ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	160,376	124,865
Adjustments for:		
Finance costs	96,376	78,688
Others	(7,753)	(15,916)
	<u>248,999</u>	<u>187,637</u>
Increase in financial receivables	(528,971)	(315,530)
Increase in construction contracts	(67,789)	(107,924)
Decrease/(increase) in trade and bills receivables	2,235	(17,967)
Increase in trade and bills payables	93,392	131,027
Others	(57,684)	29,051
	<u>(309,818)</u>	<u>(93,706)</u>
Cash used in operations	(309,818)	(93,706)
Interest received	2,153	1,988
Income tax paid	(9,734)	(9,330)
	<u>(9,734)</u>	<u>(9,330)</u>
Net cash flows used in operating activities	<u>(317,399)</u>	<u>(101,048)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of subsidiaries	—	(131,819)
Decrease/(increase) in pledged deposits	82,861	(80,863)
Others	(3,645)	(2,037)
	<u>79,216</u>	<u>(214,719)</u>
Net cash flows from/(used in) investing activities	<u>79,216</u>	<u>(214,719)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank borrowings	805,685	497,499
Repayment of bank borrowings	(423,537)	(392,120)
Interest paid	(96,376)	(78,688)
Others	(4,352)	3,471
	<u>281,420</u>	<u>30,162</u>
Net cash flows from financing activities	<u>281,420</u>	<u>30,162</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<u>43,237</u>	<u>(285,605)</u>
Cash and cash equivalents at beginning of the period	275,562	543,754
Effect of foreign exchange rate changes, net	70	(2,005)
	<u>70</u>	<u>(2,005)</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>318,869</u>	<u>256,144</u>

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2014

1. CORPORATE INFORMATION

Kangda International Environmental Company Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries are engaged in the design, construction and engineering of waste water treatment plants (“WTPs”) and municipal infrastructures, and operation of WTPs in the People’s Republic of China (the “PRC”, or Mainland China, which excludes for the purpose of this report, the Hong Kong Special Administrative Region of the PRC or Hong Kong, the Macau Special Administrative Region of the PRC or Macau, and Taiwan).

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The unaudited interim financial information for the six-month period ended 30 June 2014 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) issued by the International Accounting Standards Board.

The unaudited interim financial information do not include all the information and disclosures required in the financial information included in the Accountants’ Report dated 23 June 2014 in Appendix I to the prospectus of the Company dated 23 June 2014 (the “Prospectus”) in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), and should be read in conjunction with the Group’s financial information for the year ended 31 December 2013 included in the Accountants’ Report in Appendix I to the Prospectus.

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

The accounting policies adopted in the preparation of the unaudited interim financial information are consistent with those followed in the preparation of the Accountants’ Report for the three years ended 31 December 2011, 2012 and 2013, except for the adoption of new and revised standards effective as of 1 January 2014.

The nature and the impact of each new or revised standard is described below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

IFRIC 21 Levies

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 *Income Taxes*) and fines or other penalties for breaches of legislation.

The interpretation clarifies that an entity recognises a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognised before the specified minimum threshold is reached. The interpretation requires these same principles to be applied in interim financial information.

The adoption of these new and revised IFRSs has no significant financial effect on the interim financial information and there have been no significant changes to the accounting policies applied in the interim financial information.

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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3. OPERATING SEGMENT INFORMATION

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

- (a) the service concession arrangements segment engages in the design, construction, upgrade and operation of WTPs under the build-operate-transfer (the "BOT") arrangements or the operation of WTPs under the transfer-operate-transfer (the "TOT") arrangements;
- (b) the build-transfer (the "BT") arrangements segment engages in the design and 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 or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss 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, deferred tax assets, unallocated prepayments, deposits and other receivables, pledged deposits, cash and cash equivalents 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, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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3. OPERATING SEGMENT INFORMATION (continued)

For the six-month period ended 30 June 2014	Service concession arrangements RMB'000	BT arrangements RMB'000	Others RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	783,494	2,956	77,549	863,999
Intersegment sales	—	—	—	—
	783,494	2,956	77,549	863,999
Segment results	310,653	2,956	7,804	321,413
<i>Reconciliation:</i>				
Unallocated income and gains				3,001
Corporate and other unallocated expenses				(67,662)
Finance costs				(96,376)
Profit before tax for the period				160,376
Other segment information:				
Share of profit and loss of an associate	3,705	—	—	3,705
Reversal of impairment of trade receivables	5,114	—	—	5,114
Depreciation and amortisation	459	—	633	1,092
Unallocated amounts				2,197
Total depreciation and amortisation				3,289
At 30 June 2014				
Segment assets	4,043,811	752,866	98,342	4,895,019
<i>Reconciliation:</i>				
Corporate and other unallocated assets				450,429
Total assets				5,345,448
Segment liabilities	1,985,647	197,150	12,413	2,195,210
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				1,672,817
Total liabilities				3,868,027
Other segment information:				
Investment in an associate	51,098	—	—	51,098
Capital expenditure	2,375	—	446	2,821
Unallocated amounts				824
Total capital expenditure*				3,645

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

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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3. OPERATING SEGMENT INFORMATION (continued)

For the six-month period ended 30 June 2013	Service concession arrangements RMB'000	BT arrangements RMB'000	Others RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	423,725	150,206	1,400	575,331
Intersegment sales	—	—	—	—
	423,725	150,206	1,400	575,331
Segment results	212,010	45,729	(58)	257,681
<i>Reconciliation:</i>				
Unallocated income and gains				2,614
Corporate and other unallocated expenses				(56,742)
Finance costs				(78,688)
Profit before tax for the period				124,865
Other segment information:				
Share of profit and loss of an associate	1,084	—	—	1,084
Impairment losses recognised in profit or loss	634	—	—	634
Depreciation and amortisation	461	—	645	1,106
Unallocated amounts				1,938
Total depreciation and amortisation				3,044
At 31 December 2013				
Segment assets	3,434,000	769,622	31,728	4,235,350
<i>Reconciliation:</i>				
Corporate and other unallocated assets				478,457
Total assets				4,713,807
Segment liabilities	1,866,434	209,888	13,154	2,089,476
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				1,271,601
Total liabilities				3,361,077
Other segment information:				
Investment in an associate	50,393	—	—	50,393
Capital expenditure	1,658	—	49	1,707
Unallocated amounts				10,747
Total capital expenditure *				12,454

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

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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4. REVENUE

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, TOT arrangements and O&M services; and (3) financial income on financial receivables. The amount of each significant category of revenue is as follows:

	For the six-month period ended 30 June	
	2014 RMB'000	2013 RMB'000
Revenue from construction services	558,499	334,132
Revenue from operating services	195,296	158,014
Financial income	110,204	83,185
	<u>863,999</u>	<u>575,331</u>

5. OTHER INCOME AND GAINS

	For the six-month period ended 30 June	
	2014 RMB'000	2013 RMB'000
Reversal of impairment of trade receivables	5,114	—
Bank interest income	2,153	1,988
Government grants (note a)	1,700	1,031
Arrangement fee from a BT customer	—	7,500
Bargain purchase gain on acquisition of a subsidiary	—	18,529
Rental income less depreciation of investment properties	159	87
Others	689	539
	<u>9,815</u>	<u>29,674</u>

Note:

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

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2014

6. PROFIT BEFORE TAX

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

	<i>Notes</i>	For the six-month period ended 30 June	
		2014 RMB'000	2013 RMB'000
Cost for construction services		454,874	263,113
Cost for operation services		98,231	82,681
Total of cost of sales		553,105	345,794
Depreciation of property, plant and equipment		3,087	2,867
Depreciation of investment properties		128	128
Amortisation of intangible assets		74	49
Impairment of trade receivables	13	—	634
Reversal of impairment of trade receivables	5	(5,114)	—
Minimum lease payments under operating leases for buildings		1,505	760
Auditors' remuneration		2,196	1,977
Employee benefit expense (including directors' and chief executive's remuneration):			
Wages, salaries and allowances, social securities and benefits		46,917	34,762
Pension scheme contributions (defined contribution scheme)		4,435	3,285
Total employee benefit expense		51,352	38,047
Arrangement fee from a BT customer		—	(7,500)
Bargain purchase gain on acquisition of a subsidiary		—	(18,529)
Foreign exchange differences		(70)	2,005

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2014

7. FINANCE COSTS

	For the six-month period ended 30 June	
	2014 RMB'000	2013 RMB'000
Interest on bank borrowings	<u>96,376</u>	<u>78,688</u>

8. INCOME TAX EXPENSE

Pursuant to The PRC Enterprise Income Tax Law Implementing Regulations (中華人民共和國企業所得稅法實施條例), most of the subsidiaries established in the PRC, engaged in the operations of 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 year of generating operating revenue (the "3+3 Tax Holiday"). At 30 June 2014, these subsidiaries were already qualified for the 3+3 Tax Holiday or in the process of preparation and submission of the required documents to the respective tax authorities to apply for the 3+3 Tax Holiday. In addition, certain subsidiaries, engaged in the operations of waste water treatment projects, are entitled to enterprise income tax based on 90% of their revenues.

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

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong for the six-month period ended 30 June 2014 (six-month period ended 30 June 2013: Nil).

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2014

8. INCOME TAX EXPENSE (continued)

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

	For the six-month period ended 30 June	
	2014 RMB'000	2013 RMB'000
Current income tax		
– Mainland China	13,588	5,884
Deferred income tax	22,097	13,696
Income tax charge for the period	<u>35,685</u>	<u>19,580</u>

A reconciliation of the income tax expense applicable to profit before tax at the statutory income tax rate to the income tax expense at the Group's effective income tax rate for the six-month periods ended 30 June 2014 and 2013 is as follows:

	For the six-month period ended 30 June	
	2014 RMB'000	2013 RMB'000
Profit before tax	160,376	124,865
Income tax charge at the statutory income tax rate	40,094	31,216
Effect of the preferential income tax rate for some entities	(2,650)	(6,183)
Income not subject to tax	(1,487)	(1,230)
Expenses not deductible for tax purposes	654	695
Tax effect of share of profit and loss of an associate	(926)	(286)
Tax effect of bargain purchase gain on acquisition of a subsidiary	—	(4,632)
Tax charge for the period at the effective rate	<u>35,685</u>	<u>19,580</u>

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The calculation of basic earnings per share attributable to ordinary equity holders of the parent is based on the following data:

	For the six-month period ended 30 June	
	2014	2013
	RMB'000	RMB'000
Earnings:		
Profit for the period attributable to ordinary equity holders of the parent	<u>123,762</u>	<u>105,168</u>

	For the six-month period ended 30 June	
	2014	2013
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	<u>1,500,000</u>	<u>1,500,000</u>

The weighted average number of ordinary shares for the purpose of the basic earnings per share calculation for the six-month periods ended 30 June 2014 and 2013 has been retrospectively adjusted to reflect the 10,000 shares in issue at 30 June 2014 and 1,499,990,000 shares of the Company issued upon the listing of the Company's shares on the Stock Exchange on 4 July 2014 (as further detailed in note 23(a)).

The Group did not have any dilutive potential ordinary shares during the period.

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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10. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2014, the Group acquired property, plant and equipment with an aggregate cost amounting to approximately RMB3,290,000 (six-month period ended 30 June 2013: RMB2,992,000).

The Group did not have any disposal of property, plant and equipment during the period.

11. FINANCIAL RECEIVABLES

	30 June 2014 RMB'000	31 December 2013 RMB'000
Receivables for service concession arrangements	3,731,477	3,179,130
Receivables for BT arrangements	83,166	106,542
Provision for impairment	—	—
Net trade receivables	3,814,643	3,285,672
Portion classified as current	(760,713)	(714,398)
Non-current portion	3,053,930	2,571,274

The carrying amounts of certain financial receivables of approximately RMB2,938,362,000 (31 December 2013: RMB2,051,175,000) are pledged to secure certain bank loans granted to the Group as at 30 June 2014 (note 16).

12. CONSTRUCTION CONTRACTS

	30 June 2014 RMB'000	31 December 2013 RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	1,034,130	1,039,849
Less: Progress billings	(415,016)	(488,524)
Gross amount due from contract customers for contract work	619,114	551,325

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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13. 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 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 interest-free.

	30 June 2014 RMB'000	31 December 2013 RMB'000
Trade receivables		
Receivables for service concession arrangements	122,301	90,295
Receivables for BT arrangements	83,929	76,759
Receivables for other construction service projects and other water treatment projects	5,487	6,474
Provision for impairment	—	(5,114)
Net trade receivables	211,717	168,414
Bills receivable	20,524	60,948
	232,241	229,362

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2014

13. TRADE AND BILLS RECEIVABLES *(continued)*

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 each reporting period is as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within 3 months	106,322	114,900
3 to 6 months	16,172	31,837
6 to 12 months	71,076	8,094
Over 12 months	18,147	13,583
	<u>211,717</u>	<u>168,414</u>

The movements in provision for impairment of trade receivables are as follows:

	For the six-month period ended 30 June 2014 RMB'000
At beginning of the period	5,114
Impairment losses recognised	—
Impairment losses reversed	(5,114)
At end of the period	<u>—</u>

The individually impaired trade receivables relate to customers that were in default in principal payments or were in financial difficulties and only a portion of the receivables is expected to be recovered.

Included in the above provision for impairment of trade receivables are provisions for individually impaired trade receivables with aggregate carrying amounts before provision of RMB10,228,000 as at 31 December 2013. The management of the Group is of the view that the trade receivables will be collected during the year considering the cooperation with the same customer. Therefore, the provision for impairment of trade receivable was reversed during the six-month period ended 30 June 2014.

The carrying amounts of certain trade receivables of approximately RMB132,838,000 (31 December 2013: RMB58,712,000) are pledged to secure certain bank loans granted to the Group as at 30 June 2014 (note 16).

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2014 RMB'000	31 December 2013 RMB'000
Cash and bank balances	375,332	414,886
Less: Pledged deposits	(56,463)	(139,324)
	<hr/> 318,869 <hr/>	<hr/> 275,562 <hr/>
Cash and cash equivalents		
Cash and bank balances denominated in:		
– RMB	313,204	261,464
– United States dollars	4,985	242
– Hong Kong dollars	680	13,856
	<hr/> 318,869 <hr/>	<hr/> 275,562 <hr/>

The RMB is not freely convertible into other currencies. However, under Mainland China's prevailing rules and regulations over foreign exchange, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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15. TRADE AND BILLS PAYABLES

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

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

	30 June 2014 RMB'000	31 December 2013 RMB'000
Bills payable (note (a))	109,026	178,883
TOT payables (note (b))	33,507	37,044
Trade payables	494,751	327,965
	637,284	543,892
Less: non-current portion	(6,259)	(6,440)
Current portion	631,025	537,452

Notes:

- (a) The Group's bills payable are secured by the pledged deposits amounting to RMB55,163,000 as at 30 June 2014 (31 December 2013: RMB139,324,000).
- (b) TOT payables represented amounts due to the grantors based on payment schedules set out in the relevant TOT contracts at the end of each reporting period.

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2014

15. TRADE AND BILLS PAYABLES *(continued)*

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

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within 3 months	312,161	83,160
3 to 6 months	81,975	231,451
6 to 12 months	94,072	161,026
Over 12 months	149,076	68,255
	637,284	543,892

The carrying amounts of the current portion of the trade and bills payables approximate to their fair values as at 30 June 2014.

16. INTEREST-BEARING BANK BORROWINGS

	30 June 2014 RMB'000	31 December 2013 RMB'000
Current		
Short term bank loans – unsecured	100,000	50,000
Short term bank loans – secured	239,000	265,000
Current portion of long term bank loans - unsecured	95,000	13,800
Current portion of long term bank loans - secured	715,034	456,541
	1,149,034	785,341
Non-current		
Long term bank loans – unsecured	—	158,452
Long term bank loans – secured	1,820,503	1,643,596
	1,820,503	1,802,048
	2,969,537	2,587,389

All the interest-bearing bank borrowings are denominated in RMB.

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

	30 June 2014 RMB'000	31 December 2013 RMB'000
Property, plant and equipment	25,557	—
Investment properties	2,238	1,119
Financial receivables (note 11)	2,938,362	2,051,175
Trade and bills receivables (note 13)	132,838	58,712
	<u>2,996,995</u>	<u>2,119,896</u>

The Group's bank borrowings of approximately RMB113,200,000 as at June 2014 (31 December 2013: RMB117,700,000) were secured by the investment in the subsidiary, Beijing Chang Sheng Si Yuan Environmental Protection Technology Co., Ltd.

The Group's bank borrowings of approximately RMB216,000,000 as at 30 June 2014 (31 December 2013: RMB1,262,125,000) were guaranteed by Mr. Zhao Junxian and Mr. Zhao Sizhen, the son of Mr. Zhao Junxian, who are the controlling shareholders, and Chongqing Kangte Environmental Protection Industry Holdings Co., Ltd., an external affiliate party of the Group (note 20(a)).

17. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 30 June 2014 and 31 December 2013, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within one year	568	616
In the second to fifth years, inclusive	1,153	1,265
After five years	432	576
	<u>2,153</u>	<u>2,457</u>

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2014

17. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

The Group entered into an operating lease agreement commencing from October 2013 for three years.

At 30 June 2014 and 31 December 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within one year	3,010	3,010
In the second to fifth years, inclusive	3,878	5,383
	6,888	8,393

18. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2014.

19. COMMITMENTS

In addition to the operating lease commitments detailed in note 17(b) above, the Group had the following commitments with respect to service concession arrangements as at the end of each reporting period:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Contracted, but not provided for	810,863	1,167,467
Authorised, but not contracted for	360,918	345,120

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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20. RELATED PARTY TRANSACTIONS

- (a) The Group had the following material transactions with related parties for the six-month periods ended 30 June 2014 and 2013:

	For the six-month period ended 30 June	
	2014 RMB'000	2013 RMB'000
Certain expenses of the Group paid on behalf by a non-controlling shareholder of Jilin Kangda Environmental Protection Company Limited (吉林康達環保有限公司) ("Jilin Kangda")	<u>1,232</u>	<u>191</u>
Certain expenses of the Group paid on behalf by a non-controlling shareholder of Hebi Kangda Water Company Limited (鶴壁康達水務有限公司) ("Hebi Kangda")	<u>600</u>	<u>—</u>

The Group is contractually authorised to use a piece of land which is legally owned by the non-controlling shareholder of Jilin Kangda without charge, which also constitutes a related party transaction during the reporting period.

The above related party transactions were conducted in accordance with the terms mutually agreed between the parties.

Certain interest-bearing bank borrowings of approximately RMB216,000,000 as at 30 June 2014 (31 December 2013: RMB1,262,125,000) were guaranteed by Mr. Zhao Junxian and Mr. Zhao Sizhen, the son of Mr. Zhao Junxian, who are the controlling shareholders, and Chongqing Kangte Environmental Protection Industry Holdings Co., Ltd., an external affiliate party of the Group (note 16).

- (b) The Group had the following material balances with related parties as at the end of each reporting period:

	30 June 2014 RMB'000	31 December 2013 RMB'000
	Amounts due to a non-controlling shareholder of Jilin Kangda	<u>11,232</u>
Amounts due to a non-controlling shareholder of Hebi Kangda	<u>1,500</u>	<u>900</u>

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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20. RELATED PARTY TRANSACTIONS *(continued)*

(c) Compensation of key management personnel of the Group

	For the six-month period ended 30 June	
	2014	2013
	RMB'000	RMB'000
Short term employee benefits	615	671
Post-employment benefits	45	27
	<u>660</u>	<u>698</u>
Total compensation paid to key management personnel	<u>660</u>	<u>698</u>

21. FINANCIAL INSTRUMENTS BY CATEGORY

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

	30 June 2014	31 December 2013
	RMB'000	RMB'000
<u>Financial assets</u>		
Loans and receivables:		
Financial receivables	3,814,643	3,285,672
Trade and bills receivables	232,241	229,362
Financial assets included in prepayments, deposits and other receivables	101,517	55,222
Pledged deposits	56,463	139,324
Cash and cash equivalents	318,869	275,562
	<u>4,523,733</u>	<u>3,985,142</u>

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21. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	30 June 2014 RMB'000	31 December 2013 RMB'000
<u>Financial liabilities</u>		
Financial liabilities at amortised cost:		
Trade and bills payables	637,284	543,892
Financial liabilities included in other payables and accruals	44,954	53,456
Interest-bearing bank borrowings	2,969,537	2,587,389
	3,651,775	3,184,737

22. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	30 June 2014 RMB'000	31 December 2013 RMB'000
Carrying amount		
<u>Financial assets</u>		
Loans and receivables:		
Financial receivables, non-current portion	3,053,930	2,571,247
	3,053,930	2,571,247
<u>Financial liabilities</u>		
Financial liabilities at amortised cost:		
Trade and bills payables, non-current portion	6,259	6,440
Interest-bearing bank borrowings, non-current portion	1,820,503	1,802,048
	1,826,762	1,808,488

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

Fair value	30 June 2014 RMB'000	31 December 2013 RMB'000
<u>Financial assets</u>		
Loans and receivables:		
Financial receivables, non-current portion	3,099,311	2,576,924
	3,099,311	2,576,924
<u>Financial liabilities</u>		
Financial liabilities at amortised cost:		
Trade and bills payables, non-current portion	5,874	6,067
Interest-bearing bank borrowings, non-current portion	1,488,669	1,516,659
	1,494,543	1,522,726

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

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

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

All financial assets and liabilities for which fair value was disclosed in these unaudited interim financial information are categorised within the fair value hierarchy of level 3 as at the end of the six-month period ended 30 June 2014, except for interest-bearing bank borrowings which are categorised within the fair value hierarchy of level 2.

NOTE TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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23. SUBSEQUENT EVENTS

- (a) Pursuant to the written resolutions of the sole shareholder of the Company, Kangda Holdings Company Limited (康達控股有限公司) (“Kangda Holdings”), passed on 14 June 2014, conditional on the share premium account of the Company being credited as a result of the Global Offering as defined in the Prospectus dated 23 June 2014, the sum of HK\$14,999,900 standing to the credit of the share premium account of the Company was capitalised and applied towards paying up in full at par 1,499,990,000 shares of the Company upon the listing of the Company’s shares on the Stock Exchange on 4 July 2014 (the “Capitalisation Issue”).
- (b) On 24 May 2012, the Baring Asia Private Equity Fund V, L.P. and Baring Private Equity Asia V Holding (5) Limited (collectively, the “Investors”) entered into a bond purchase agreement (the “Bond Purchase Agreement”) with Kangda Holdings and Mr. Zhao Sizhen. Pursuant to the Bond Purchase Agreement, the Investors purchased the exchangeable bonds issued by Kangda Holdings with a principal amount of HK\$737,164,130, which are exchangeable into the shares of the Company upon its listing (the “Exchangeable Bonds”). The Exchangeable Bonds were automatically exchanged into 405,077,996 shares of the Company immediately prior to the commencement of dealings in the shares of the Company on the Stock Exchange on the listing date of 4 July 2014.
- (c) The Company’s shares were listed on the Stock Exchange on 4 July 2014 and in connection with the Company’s Global Offering, 500,000,000 ordinary shares of the Company of HK\$0.01 each were issued at a price of HK\$2.8 per share for a total cash consideration, before expenses, of approximately HK\$1,400,000,000. On 25 July 2014, the over-allotment option was partially exercised and 67,515,000 ordinary shares of the Company of HK\$0.01 each were issued at a price of HK\$2.8 per share for a total cash consideration, before expenses, of approximately HK\$189,042,000. After the completion of the Capitalisation Issue, the Global Offering and the completion of the over-allotment, the total number of ordinary shares of the Company is 2,067,515,000.
- (d) On 24 July 2014, 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 Dalian Langxinming Environmental Engineering Co., Ltd. (大連朗新明環境工程有限公司)(the “Dalian Langxinming”), for the acquisition of 100% equity interests of Guodian Langxinming Puyang Water Co., Ltd (國電朗新明濮陽水務有限公司) (“Puyang Water”), which is a wholly-owned subsidiary of Dalian Langxinming, for a consideration of RMB56.88 million. Because the acquisition of Puyang Water was effected shortly before the date of approval of these financial statements, it is not practicable to disclose further details about the acquisition.

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23. SUBSEQUENT EVENTS *(continued)*

- (e) On 10 August 2014, Chongqing Kangda entered into an agreement with Shandong Guohuan Industrial Investment Co., Ltd (山東國環產業投資有限公司) (the “Shandong Guohuan”) for the acquisition of 90% equity interests held by Shandong Guohuan in each of the following companies: Yanggu County Guohuan Sewage Treatment Co., Ltd. (陽穀縣國環污水處理有限公司), Xin County Guohuan Sewage Treatment Co., Ltd. (莘縣國環污水處理有限公司), Liaocheng Municipal Guohuan Sewage Treatment Co., Ltd. (聊城市國環污水處理有限公司), Jiaxiang County Guohuan Sewage Treatment Co., Ltd. (嘉祥縣國環污水處理有限公司) for an aggregate consideration of RMB270,900,000. Because such acquisition was effected shortly before the date of approval of these financial statements, it is not practicable to disclose further details about the acquisition.
- (f) On 19 August 2014, Chongqing Kangda and Suihua Kangda Environmental Protection Water Company Limited (綏化康達環保水務有限公司), wholly-owned subsidiaries of the Company, entered into concession agreements with Suihua Municipal Bureau of Housing and Urban-Rural Development (綏化市住房和城鄉建設局) (“Suihua Construction Bureau”)(the “Concession Agreements”). After the completion of a public tender process, pursuant to the Concession Agreements, Suihua Construction Bureau agreed to (i) transfer Phase I of Suihua Municipal Wastewater Treatment Plant (綏化市污水處理廠) (the “Plant”) to Suihua Kangda (the “TOT Project”) and to grant Suihua Kangda the concession rights to exclusively operate and maintain the TOT Project during the period of thirty years starting from the date of the confirmation letter relating to asset handover base on the Concession Agreements (the “Concession Period”) at a consideration of RMB93 million; and (ii) grant Suihua Kangda the concession rights to exclusively construct, operate and maintain of Phase II of the Plant (the “BOT Project”) during the Concession Period. Pursuant to the Concession Agreements, the Plant shall be transferred back to Suihua Construction Bureau after the expiration of the Concession Period. Because the Concession Agreements were effected shortly before the date of approval of these financial statements, it is not practicable to disclose further details about the Concession Agreements.

24. APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were authorised for issue by the board of directors on 27 August 2014.