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

ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Zhuang Ping

Independent non-executive Directors

Mr. Tsui Yiu Wa Alec
Mr. Yuan Shaoli
Mr. Peng Yongzhen (appointed on 26 February 2015)
Mr. Song Qianwu (resigned on 26 February 2015)

AUDIT COMMITTEE

Mr. Tsui Yiu Wa Alec (Chairman)
Mr. Yuan Shaoli
Mr. Peng Yongzhen (appointed on 26 February 2015)
Mr. Song Qianwu (resigned on 26 February 2015)

REMUNERATION COMMITTEE

Mr. Yuan Shaoli (Chairman)
Mr. Gu Weiping
Mr. Peng Yongzhen (appointed on 26 February 2015)
Mr. Song Qianwu (resigned on 26 February 2015)

NOMINATION COMMITTEE

Mr. Zhao Juanxian (alias, Zhao Junxian) (Chairman)
Mr. Zhang Weizhong
Mr. Tsui Yiu Wa Alec
Mr. Yuan Shaoli
Mr. Peng Yongzhen (appointed on 26 February 2015)
Mr. Song Qianwu (resigned on 26 February 2015)

COMPANY SECRETARY

Ms. Chan Yin Wah

AUTHORISED REPRESENTATIVES

Mr. Zhang Weizhong
Ms. Liu Zhiwei

REGISTERED OFFICE

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

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

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Royal Bank of Canada Trust
Company (Cayman) Limited
4th Floor
Royal Bank House
24 Shedden Road
George Town
Grand Cayman KY1-1110
Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISERS

As to Hong Kong law:
Orrick, Herrington & Sutcliffe
43/F Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

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

COMPLIANCE ADVISER

TC Capital Asia Limited
Suite 1904
19/F, Tower 6
The Gateway, Harbour City
9 Canton Road
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
1 Tim Mei Avenue
Central
Hong Kong

STOCK CODE

6136

COMPANY WEBSITE

http://www.kangdaep.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

Kangda International Environmental Company Limited (the "Company") was successfully listed (the "Listing") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 4 July 2014. The shares of the Company (the "Shares") offered received extensive attention in the market. The successful Listing demonstrated shareholders' confidence in the Group's foundation, business model and strategy.

On behalf of the board (the "Board") of directors (the "Directors") of the Company together with its subsidiaries (collectively the "Group"), I am pleased to present the first annual report of the Group following the Listing to you.

RESULTS REVIEW

During the year 2014, thanks to the dedicated hard work of all of our employees, we achieved the results target set at the beginning of the year and recorded encouraging results. During the year ended 31 December 2014, the Group achieved a revenue of RMB1,812.8 million, representing an increase of 35% as compared to the year 2013. As at 31 December 2014, profit attributable to equity shareholders of the Company (the "Shareholders") was RMB294.8 million, representing an increase of approximately 27% as compared to the year 2013, equivalent to basic earnings per share of RMB16.60 cents. In order to achieve the Group's strategic target of expanding and growing its presence, the Board has resolved to invest all retained profits as of the year in the rapid development of the Company with a view to generating more generous returns for our Shareholders in the future.

As at 31 December 2014, the Group entered into a total of 62 service concession arrangements projects, including 61 wastewater treatment plants and 1 water distribution plant, representing an increase of approximately 29% as compared to 48 service concession arrangements projects as at 31 December 2013. As at 31 December 2014, the Group's daily wastewater treatment capacity was approximately 2,472,000 tonnes, representing a significant increase of approximately 34% as compared to the Group's treatment capacity of approximately 1,847,000 tonnes as at 31 December 2013.

CORPORATE GOVERNANCE

In 2014, while the Group has been continued to enhance the internal control and management system, the management of the Group has also been actively implementing the management approach guided by performance targets in order to enhance its overall management level.

On the other hand, the Group will continue to implement the talent echelon training programme in order to enhance the talent reserve of the Group and together with the reinforcement of investment in technological innovation, research and development. By cooperating with universities and scientific research institutions in technological research and development in 2014, the Group is enabled to continuously enhance its technical competitive edge.

DEVELOPMENT STRATEGY AND FUTURE OUTLOOK

We will take full advantage of the golden development opportunities in the water environmental protection industry to solidify our existing market share and further expand our scale of wastewater treatment and extend our geographic reach. By leveraging the Group's experience in the wastewater treatment industry, we plan to expand our business areas based on the wastewater treatment industrial chain to the areas, such as sludge disposal, reclaimed water and the industrial wastewater treatment businesses in order to further enhance our brand image. In summary, the opportunities are greater than the challenges in 2015, and we firmly believe the year of 2015 is a year of rapid development for the Group.

Finally, I would like to take this opportunity to express our gratitude to all the Shareholders and all the collaborative partners of our Group for their dedicated support to the Group's development, and also to all the staff of our Group for their endeavors and contributions made during the year.

Zhao Juanxian (alias, Zhao Junxian)
Chairman of the Board

Hong Kong, 26 March 2015

DEVELOPMENT STRATEGIES AND FUTURE DEVELOPMENT

The Group is the leading privately-owned company for investing in and operating wastewater treatment facilities in Mainland China and is among the first privately-owned participants in the wastewater treatment industry in Mainland China. It has over 18 years of experience in successfully implementing wastewater treatment projects for customers. The Group aims to maintain the front runner position amongst the privately-owned wastewater treatment service providers in Mainland China. On 4 July 2014, the Group completed its Hong Kong Public Offering and the International Placing ("Global Offering") on the Main Board of the Stock Exchange, a milestone for the Group. The net proceeds from the Global Offering were approximately HK$1,480.6 million.

The Group has accumulated valuable technical expertise and operational experience during the rapid development of the wastewater treatment industry. Through this capability, the Group has embodied the ability to accurately select process technologies and utilise efficient management strategies required for each project in a timely manner. The Group aims to continue expanding its existing project portfolio and to extend its geographic reach, and pursue selective business acquisition opportunities, with BOT (Build-Operation-Transfer) and TOT (Transfer-Operation-Transfer) as its preferred project model.

In 2014, based on the Group's strong track record in investing in and operating wastewater treatment facilities, the Group entered into service concession agreements, including Liangshan Economic Development Zone Wastewater Treatment Plant* (梁山經濟開發區污水處理廠), Suihua Municipal Wastewater Treatment Plant* (綏化市污水處理廠), phase II of the Tianjin Ninghe Wastewater Treatment Plant* (天津寧河縣污水處理廠二期項目), Jiaozuo Industrial Park Upgrade and Expansion Project* (焦作市工業集聚區萬方污水處理項目) and Laiyang Municipal Second Wastewater Treatment Plant*(萊陽市第二污水處理廠), through which, the Group expanded its existing project portfolio and extended our geographic reach. Furthermore, as at 31 December 2014, the Group had completed the acquisition of 90% equity interests of four water companies from Shandong Guohuan Industrial Investment Co., Ltd.* (山東國環產業投資有限公司) ("Four Subsidiaries from Shandong Guohuan"), 70% equity interests in Zhengzhou Xinzhongzhou Water Co., Ltd.* (鄭州新中洲水務有限公司) ("Xinzhongzhou Water) and the whole equity interests in Guodian Langxinming Puyang Water Co., Ltd.* (國電郎新明濮陽水務有限公司), all of which are as part of a strategy expanding and increasing our geographic and market share by acquisition of more wastewater treatment capacity. In addition to the above, the Group had successfully entered into an equity purchase agreement for acquisition of Pingdingshan City Bay Water Treatment Co., Ltd.* (平頂山市海灣水務有限公司), revenue and earnings of which will start to be consolidated to our financial statements since acquisition date in 2015.

In the future, the Group intends to continue to focus on investing in and operating wastewater treatment facilities in Mainland China and seek to expand its operations organically to increase its recurring earnings stream. Firstly, the Group will continue to focus on regions that have the potential of requiring either new or upgrade and expansion projects, to expand our existing project portfolio through capitalised experience and expertise. Secondly, the Group will pursue opportunities of business acquisition of selective projects.

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

For the past two decades, China's economy has rapidly expanded with significant infrastructure investments in agriculture, manufacture, real estate, power and other heavy industries conducted, and alongside this development a rapid urbanisation. Such development has led to a strong demand for wastewater treatment, and the PRC government has formally acknowledged the importance of regulating the wastewater treatment and discharge with higher standards, broader treatment scope and stricter government regulation. Under this background, on 1 January 2015, the Ministry of Environmental Protection of the People's Republic of China (中華人民共和國環保部) announced and implemented the amended version of Environmental Protection Law of the People's Republic of China* (《中華人民共和國環境保護法》), according to which Mainland China's environmental supervision will be implemented on a higher level of standards, among which, unlawful discharging enterprises will be imposed a penalty without upper limit. In the future, the PRC government, including local governments who are the Group's customers, will increase investments, during the rest of the 12th and 13th Five-Year Plan period respectively, into the wastewater treatment industry, which will bring us a market with more opportunities. The Group will take this wastewater industry enhancement opportunity to enlarge its project portfolio, including solidify existing projects by continuously entering into upgrade and expansion agreements, as well as expanding into new geographic market by bidding new BOT and TOT projects and seizing good business acquisition opportunities. The Company believes that from the year of 2015, the Chinese environmental protection industry, especially the Chinese wastewater treatment industry, will enter into a new era with a more regulated and more integrated stage, through which the Group will pursue an enlargement of its market share.

In addition, the Group had a recent plan to enter into the sludge treatment services to expand into other business activities ancillary to wastewater treatment to capitalise on developments in the industry value chain, and such plan has been materialised in the second half of 2014.

In the future, the Group intends to solidify its leading position in the industry and seize the future wastewater industry growth opportunity, facilitated with the Group's successful Listing on the Stock Exchange. By continuously pursuing this goal, it will not only enhance shareholders' base but will also enhance the financial position and the corporate brand of the Group, and these benefits will in turn translate into greater profitability in the future.

* *For identification purpose only*

BUSINESS REVIEW

The principal business of the Group includes constructions and operations in wastewater treatment business. The coverage of the Group's wastewater treatment plants and water distribution plants has extended to 62 projects in 9 provinces and municipalities all across Mainland China.

Service Concession Arrangements

As at 31 December 2014, the Group had entered into total of 62 service concession arrangements projects including 61 wastewater treatment plants and 1 water distribution plant. Total daily treatment capacity for new wastewater projects secured for the year 2014 was 625,000 tonnes including (i) BOT projects of 175,000 tonnes; (ii) TOT projects of 70,000 tonnes; and (iii) 380,000 tonnes through mergers and acquisitions including (a) 50,000 tonnes acquired from Dalian Langxinming Environmental Engineering Co., Ltd.* (大連郎新明環境工程有限公司); (b) 140,000 tonnes acquired from Shandong Guohuan Industrial Investment Co., Ltd.* (山東國環產業投資有限公司); (c) 60,000 tonnes acquired from Xinzheng Municipal Xinyuan Wastewater Treatment Co., Ltd. (新鄭市新源污水處理有限責任公司); and (d) 130,000 tonnes acquired from Henan Xindi Environmental Protection Investment Co., Ltd.* (河南鑫迪環保投資有限公司).

As at 31 December 2014, total daily wastewater treatment capacity was approximately 2,472,000 tonnes, representing an increase of approximately 34% as compared with the capacity of approximately 1,847,000 tonnes as at 31 December 2013. The status of the water supply project remained same as at 31 December 2013.

Analysis of the Group's service concession arrangements projects on hand as at 31 December 2014 is as follow:

	Wastewater treatment	Water distribution	Total
(Tonnes)			
In operation	1,920,000	—	1,920,000
Not yet start operation/Not yet transferred	552,000	31,300	583,300
Total	2,472,000	31,300	2,503,300
(Number of projects)			
In operation	46	—	46
Not yet start operation/Not yet transferred	15	1	16
Total	61	1	62

* *For identification purpose only*

	Number of projects	Treatment capacity *(Tonnes/Day)*	Actual treatment capacity during the year *(Million Tonnes)*
Henan	16	825,000	181.8
Shandong	27	890,000	159.7
Anhui	5	225,000	64.9
Jiangsu	4	62,000	20.2
Other provinces/municipalities*	9	470,000	84.6
	61	2,472,000	511.2
Water distribution services	1	31,300	—
	62	2,503,300	511.2

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

Operation Services

As at 31 December 2014, the Group had 46 wastewater treatment projects in operation in Mainland China. Total daily treatment capacity in operation of wastewater treatment plants as at 31 December 2014 reached 1,920,000 tonnes (31 December 2013: 1,390,000 tonnes). For the year ended 31 December 2014, the annual utilisation rate for wastewater treatment plants in operation was approximately 87%. The actual average wastewater treatment tariff for the year ended 31 December 2014 was approximately RMB1.14 per tonne. The actual aggregate processing volume for the year was 511.2 million tonnes, which contributed by subsidiaries recorded a revenue of RMB444.2 million for the year (2013: RMB325.7 million).

Construction Services

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

During the year ended 31 December 2014, construction revenue was recognised for 21 BOT projects, including 20 wastewater treatment plants and 1 water distribution plant, which were mainly located in the Henan and Shandong provinces in Mainland China. Total construction revenue of those BOT projects was RMB811.2 million (2013: RMB531.6 million). As at 31 December 2014, the total daily treatment capacity of these wastewater treatment plants and one water distribution plant, which were still in the construction stage, was 433,300 tonnes. Most of these projects are expected to commence operation in the year 2015.

BT Arrangements

As at 31 December 2013, the Group had four BT (Build-Transfer) projects for the construction of municipal water supply, drainage network and municipal infrastructure. In 2014, we did not enter into new BT projects.

During the year ended 31 December 2014, the Group finalised and entered into the repurchase agreement with the customer of Jilin BT project, according to which the Group further finalised the subcontract with suppliers and recognised construction revenue and cost. During the year ended 31 December 2014, the Group's BT arrangements contributed a revenue of RMB167.5 million (2013: RMB301.8 million).

Other Services

As at 31 December 2014, the Group provided O&M services, construction services related to other construction service projects and other water treatment services. For the year ended 31 December 2014, the Group's other services contributed revenue of RMB145.7 million (2013: RMB7.5 million).

FINANCIAL ANALYSIS

Revenue

During the year ended 31 December 2014, the Group recorded revenue of RMB1,812.8 million, representing an increase of approximately 35% as compared to last year of RMB1,339.7 million. The increase was mainly due to the increase in construction revenue and operating revenue amounted to RMB276.2 million and RMB120.2 million, respectively. The increase in construction revenue was mainly due to the commencement of construction of Jiaozuo City Wastewater Treatment Plant Phase II Expansion project, Jiaozuo Industrial Park Upgrade and Expansion project, Suihua Municipal Wastewater Treatment Plant Phase II, and Shandong Liangshan Economic Development Zone Wastewater Treatment Plant project and continuously construction work that we conducted for the Jiaozuo municipal government; while the increase in operation revenue was mainly due to an increase in actual wastewater treatment capacity. For details, please refer to ***Business Review-Operation Services*** and ***Construction Services*** *above*.

Cost of sales

The Group's cost of sales for the year amounted to RMB1,087.6 million, representing an increase of approximately 32% as compared to last year of RMB826.3 million. The increase was due to the increase in construction costs and operating costs amounted to RMB203.9 million and RMB57.4 million. Cost of sales mainly included construction costs of RMB854.4 million and operating costs of wastewater treatment plants of RMB233.2 million. The construction costs mainly consisted of contractor costs, installation of equipment costs and procurement costs. The increase in construction costs was mainly due to the increase in construction works for Jiaozuo City Wastewater Treatment Plant Phase II Expansion project, Jiaozuo Industrial Park Upgrade and Expansion project, Suihua Municipal Wastewater Treatment Plant Phase II, and Shandong Liangshan Economic Development Zone Wastewater Treatment Plant project and continuously construction work that we conducted for the Jiaozuo municipal government. The operating costs of wastewater treatment plants, mainly included electricity costs, staff costs and maintenance costs. The increase in operating costs was mainly due to increase in actual wastewater processing capacity.

Gross profit margin

During the year ended 31 December 2014, gross profit margin was approximately 40%, representing a minor increase of two percentage points as compared to last year of approximately 38%. The gross margin for service concession arrangements remained at the same level to last year at 41%, with a minor decrease of 1% due to drop of construction margin, which is due to the increasing proportion of construction margin recorded for service concession arrangement projects. Gross margin for BT arrangements increased from 27% last year to 58% this year as the Group entered into the repurchase agreement of Jilin BT project, gross margin of which recognised this year was 59%. For details, please refer to ***Business Review – BT arrangements***. Gross margin for other services increased from -1% last year to 10% this year, which was primarily due to the construction work that we conducted for the Jiaozuo municipal government.

Other income and gains

The Group recorded other income and gains of RMB47.6 million during the year ended 31 December 2014, compared to last year of RMB48.5 million. The amount for this year included government grants of RMB4.8 million, bargain purchase gains on acquisition of subsidiaries of RMB19.7 million, bank interest income of RMB10.1 million, foreign exchange gain of RMB5.1 million and reversal of impairment of trade receivables of RMB5.1 million.

Selling and distribution expenses

The Group's selling and distribution expenses for the year ended 31 December 2014 was RMB8.5 million, remained at a similar level to RMB8.7 million last year, which was as a result of continuously ongoing market expansion strategy.

Administrative expenses

Administrative expenses for the year ended 31 December 2014 was RMB169.2 million, compared to last year of RMB103.9 million. The increase was mainly due to the increase in staff costs of RMB20.9 million, increase of one-off professional fees and expenses incurred in connection with the Global Offering amounting to RMB20.0 million.

Other expenses

Other expenses for the year ended 31 December 2014 was nil, compared to last year of RMB3.9 million. The decrease was mainly due to the foreign exchange gains which were recognised in "***Other income and gains***" *section*.

Finance costs

Finance costs for the year ended 31 December 2014 mainly represented interests on interest-bearing bank borrowings of RMB219.0 million, compared to RMB167.7 million last year. The increase in finance costs was mainly due to the increase of interest-bearing bank borrowings in line with the increase in project portfolio and Group's market expansion strategy.

Share of profit and loss of an associate

Share of profit and loss of an associate was RMB5.6 million, compared to RMB4.0 million last year, primarily due to the Group's associate Nanchang Qingshanhu Project Co., Ltd* (南昌青山湖污水處理有限公司), which has a daily wastewater treatment capacity of 500,000 tonnes.

* *For identification purpose only*

Income tax expense

Income tax expense for the year ended 31 December 2014 included the current PRC income tax of RMB21.8 million and deferred tax expenses of RMB63.5 million, compared to RMB14.5 million and RMB34.6 million for last year, respectively. The Group's effective tax rate was about 22% (2013: 17%) which was lower than the PRC standard income tax rate of 25% as some of the wastewater treatment projects are eligible for tax holiday of a three-year full exemption followed by a three-year half exemption commencing from their respective first year generating operating revenue (the "3+3 Tax Holiday"). The increase of effective tax rate was mainly due to the tax effect of tax losses not recognised in connection with the Global Offering.

Financial receivables

	As at 31 December	
	2014 **RMB'000**	2013 RMB'000
Receivables for service concession arrangements	**4,875,532**	3,179,130
Receivables for BT arrangements	**244,638**	106,542
Subtotal of financial receivables	**5,120,170**	3,285,672
Portion classified as current	**1,072,687**	714,398
Non-current portion	**4,047,483**	2,571,274

As at 31 December 2014, the Group's financial receivables was RMB5,120.2 million, compared to RMB3,285.7 million as at 31 December 2013. The increase was primarily due to the increase in construction of our BOT service concession arrangements projects, acquisition of wastewater treatment projects through business combination and finalised repurchase agreement of Jilin BT project.

Construction contracts

As at 31 December 2014, construction contracts, which are gross amounts due from customers for contract work, was RMB420.7 million, compared to RMB551.3 million as at 31 December 2013. The decrease was primarily due to the repurchase of Jilin BT project and partially offset by construction work for Jiaozuo municipal government.

Trade and bills receivables

As at 31 December 2014, the Group's trade and bills receivables of RMB503.3 million (31 December 2013: RMB229.4 million) mainly arose from the provision of wastewater treatment services for our service concession arrangements projects. The balance increased by RMB273.9 million, mainly due to: firstly, the increase of service concession arrangements receivables, approximately RMB107.7 million, as a result of increase of wastewater treatment capacity entered into operation and acquired through business combination respectively, for the year 2014; secondly, BT project receivables, approximately RMB221.9 million, relating to our Jilin BT project, which entered into the finalised repurchase agreement in the second half of this year.

Prepayments, deposits and other receivables

As at 31 December 2014, the Group's prepayments, deposits and other receivables of RMB140.3 million (31 December 2013: RMB80.1 million) increased by RMB60.2 million, mainly due to the increase in advance payments to subcontractors and the investment deposit for the acquisition of Pingdingshan City Bay Water Treatment Co., Ltd..

Cash and cash equivalents

As at 31 December 2014, the Group's cash and cash equivalents of RMB747.3 million (31 December 2013: RMB275.6 million) increased by RMB471.7 million. The increase was mainly due to unutilised net proceeds from the Global Offering.

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Net cash flow used in operating activities[1]	**(634,384)**	(205,773)
Net cash flow used in investing activities	**(754,642)**	(224,501)
Net cash flow from financing activities	**1,860,437**	164,743
Net increase/(decrease) in cash and cash equivalents	**471,411**	(265,531)
Effect of foreign exchange rate changes	**310**	(2,661)
Cash and cash equivalents at beginning of year	**275,562**	543,754
Cash and cash equivalents at end of year	**747,283**	275,562

Note:

(1) For the year ended 31 December 2014 and 2013, we invested RMB793.2 million and RMB471.7 million, respectively, in our 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 our consolidated statement of financial position. For the year ended 31 December 2014 and 2013, we would have incurred cash inflows of RMB158.8 million and RMB265.9 million, respectively, if our investments in BOT and TOT activities were not accounted for as cash flows used in operating activities.

For details of the currencies in which cash and cash equivalents are made, please refer to note 24 to the consolidated financial statements.

Trade and bills payables

As at 31 December 2014, the Group's trade and bills payables of RMB728.4 million (31 December 2013: RMB543.9 million) increased by RMB184.5 million, was mainly due to the increase in trade payables to subcontractors as a result of increase in subcontracting charges for our construction services for service concession arrangements.

Other payables and accruals

As at 31 December 2014, the Group's other payables and accruals of RMB133.6 million (31 December 2013: RMB53.5 million) increased by RMB80.1 million, which was mainly due to the consideration payables of RMB67.1 million for the acquisition of subsidiaries from Xinzheng Municipal Xinyuan Wastewater Treatment Co., Ltd. and Shandong Guohuan Industrial Investment Co., Ltd..

Liquidity and financial resources

Our principal liquidity and capital requirements primarily relate to investments in wastewater treatment projects, merger and acquisition of subsidiaries, costs and expenses related to the operation and maintenance of our facilities, working capital and general corporate purpose.

As at 31 December 2014, the carrying amount of the Group's cash and bank deposits was RMB1,259.2 million, representing an increase of approximately 203% as compared to RMB414.9 million as at 31 December 2013, which was mainly attributable to the net proceeds received from the Global Offering but have not been utilised.

The Group's total interest-bearing bank borrowings amounted to RMB3,556.8 million as at 31 December 2014 (31 December 2013: RMB2,587.4 million), over 95% of which bear interest at floating rates.

As at 31 December 2014, the Group had banking facilities amounting to RMB10,159.9 million, of which RMB5,754.5 million have not been utilised. Of the unutilised banking facilities as at that date, RMB3,984.5 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.

The Group's total equity amounted to RMB2,924.7 million as at 31 December 2014, compared to RMB1,352.7 million as at 31 December 2013. The increase was mainly due to the Group's Global Offering during the year. During the year 2014, the Company newly issued collectively 567,515,000 new shares at HK$2.80 per share through the completion of Global Offering and partial exercise of the over-allotment option, for further details, please refer to the section headed "***GLOBAL OFFERING***" section.

As at 31 December 2014, the gearing ratio (calculated by net debt divided by capital and net debt) was 52%, while the gearing ratio is 67% as at 31 December 2013. The decrease of gearing ratio was mainly due to the Group's Global Offering in 2014.

Charges on the Group's assets

Outstanding balance of interest-bearing bank borrowings as at 31 December 2014 was approximately RMB3,556.8 million, which were repayable within three months to ten years and were secured by financial receivables, property, plant and equipment, investment properties, trade receivables and pledged deposits, of which the total amounts of the pledge of assets amounted to RMB3,851.8 million.

Capital expenditures

During the year ended 31 December 2014, the Group's total capital expenditures were RMB1,293.9 million, compared to RMB776.3 million in 2013. The increase was mainly due to RMB944.8 million spent on construction and acquisition of wastewater treatment plants and RMB344.7 million represented the consideration for acquisition of equity interests in subsidiaries.

GLOBAL OFFERING

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.

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$2.80 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 with a par value of HK$0.01 each were issued at a price of HK$2.80 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.

USE OF THE NET PROCEEDS FROM THE GLOBAL OFFERING

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

	HK$ million		
	Available	Utilised	Unutilised
Expanding			
our business and project portfolio	1,026.6	272.5	754.1
– through BOT projects and TOT projects, including expansion and upgrade projects	454.0	120.5	333.5
– through business acquisition	572.6	152.0	420.6
Repayment of existing short-term bank borrowings	259.4	68.8	190.6
Working capital and general corporate purpose	129.7	34.4	95.3
Purchase of electronic systems and software	64.9	–	64.9
	1,480.6	375.7	1,104.9

EMPLOYEES AND REMUNERATION POLICIES

The Group had 1,632 employees as at 31 December 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 provides external and internal training programs to its employees.

SHARE OPTION SCHEME

The purpose of the share option scheme adopted by the Company on 14 June 2014 (the “Share Option Scheme”) is to give the key staff 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 to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible participants who are significant to and whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of management staff, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

The exercise price of share options under the Share Option Scheme is determinable by the Directors, but may not be less than the higher of (i) the nominal value of a share; (ii) the Stock Exchange closing price of the Company’s shares on the date of offer of the share options; and (iii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of offer.

On 19 December 2014 (the “Date of Grant”), an aggregate of 84,500,000 shares had been granted by the Board under the Share Option Scheme.

All share options granted on the Date of Grant pursuant to the Share Option Scheme to its participants have a vesting period of three years as follows: 30% on 19 December 2015, 30% on 19 December 2016 and 40% on 19 December 2017. Each share option granted pursuant to the Share Option Scheme has the same terms and conditions. The grant and vesting of the share option granted pursuant to the Share Option Scheme are in compliance with Rule 10.08 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

For details of the accounting policy adopted for the share options and value of share options granted, please refer to note 2.4 and note 29 to the consolidated financial statements.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

(a) 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.* (大連郎新明環境工程有限公司) ("Dalian Langxinming"), for the acquisition of 100% equity interests of Guodian Langxinming Puyang Water Co., Ltd (國電郎新明濮陽水務有限公司), which was a wholly-owned subsidiary of Dalian Langxinming, for a consideration of RMB56.9 million.

Further details of the transaction are set out in the Company's announcement dated 24 July 2014.

(b) 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) ("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.* (陽谷縣國環污水處理有限公司), Shen 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 RMB270.9 million.

Further details of the transaction are set out in the Company's announcement dated 10 August 2014.

(c) On 13 August 2014, Chongqing Kangda entered into an agreement with Xinzheng Municipal Xinyuan Wastewater Treatment Co., Ltd.* (新鄭市新源污水處理有限責任公司) ("Xinzheng Xinyuan"), for the acquisition of 70% equity interests of Zhengzhou Xinzhongzhou Water Co., Ltd.* (鄭州新中洲水務有限公司), which was a wholly-owned subsidiary of Xinzheng Xinyuan, for a consideration of RMB84.0 million.

Further details of the transaction are set out in the Company's announcement dated 30 December 2014.

(d) On 30 December 2014, Chongqing Kangda entered into a share purchase agreement with Henan Xindi Environmental Protection Investment Co., Ltd.* (河南鑫迪環保投資有限公司) ("Henan Xindi"), for the acquisition of 80% equity interests of Pingdingshan City Bay Water Treatment Co., Ltd.* (平頂山市海灣水務有限公司), which was a wholly-owned subsidiary of Henan Xindi, for a consideration of RMB229.8 million.

Further details of the transaction are set out in the Company's announcement dated 30 December 2014.

As at the date of this annual report, the transaction has not been completed.

Save as disclosed above, the Group had no significant investments, acquisitions and disposals of subsidiaries and associated companies during the year ended 31 December 2014.

* *For identification purpose only*

CONTINGENT LIABILITIES

As at 31 December 2014, the Group did not have any significant contingent liabilities (31 December 2013: Nil).

FOREIGN EXCHANGE RISK

Majority of the subsidiaries of the Company operate in the PRC with most of the transactions denominated and settled in RMB. As at 31 December 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.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: Nil).

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board is responsible and has general powers for the management and operation of our business. Our Board currently consists of 9 Directors, including 5 executive Directors, 1 non-executive Director and 3 independent non-executive Directors.

Executive Directors

Mr. Zhao Juanxian (alias, Zhao Junxian) (趙雋賢), aged 62, is the founder of our Group. He is our executive Director, and the chairman of the Board of our Company, responsible for strategic development and planning, overall operational management, market development and major decision making. He was appointed as a Director on 22 August 2011. He has acted as a director and the chief executive officer of Chongqing Kangda since the beginning of the establishment of Chongqing Kangda and ceased to be the chief executive officer of Chongqing Kangda from September 2012. He has also served as a director of Jilin Kangda Environmental Protection Co., Ltd.* (吉林康達環保有限公司) ("Jilin Kangda") and Hebi Kangda Water Co., Ltd.* (鶴壁康達水務有限公司) ("Hebi Kangda") since September 2011 and February 2012, respectively. He graduated from the political administration at elementary level* (黨政幹部基礎科專業) from Sichuan University* (四川大學) located in Chengdu City, Sichuan Province, and Sichuan Higher Vocational and Examination Committee* (四川省高等中專教育自學考試指導委員會) in June 1988, and attended a one-month education programme of Sichuan foreign-related business from Shenzhen University* (深圳大學) located in Shenzhen City, Guangdong Province, in July 1988. Mr. Zhao Juanxian has about 25 years of experience in the environmental protection and wastewater treatment industry and was awarded for several times for his valuable contribution to the development of environmental protection and his expertise in environmental protection technology by relevant environmental protection industry associations from 2004 to 2009. Mr. Zhao Juanxian was granted the title of Outstanding Environmental Technology Entrepreneurs by the Chinese Society for Environmental Sciences* (中國環境科學學會) in September 2004. He received the China Environmental Protection Industry Development Award granted by the China Association of Environmental Protection Industry* (中國環境保護產業協會) in January 2005. He was also granted the title of Outstanding Individual of Environmental Protection by the People's Government of Chongqing Municipal* (重慶市人民政府) in July 2006 and Outstanding Entrepreneur of China Environmental Protection Industry by China Association of Environmental Protection Industry* (中國環境保護產業協會) in October 2009.

Mr. Zhao Juanxian served as the vice president of the 3rd and 4th Session of Chongqing Municipal Environmental Protection Industry Association* (重慶市環境保護產業協會第三屆及第四屆理事會) in 2005 and 2012, respectively, and the vice president of the 3rd and 4th Session of China Association of Environmental Protection Industry* (中國環境保護產業協會第三屆及第四屆理事會) in 2005 and 2009, respectively. In January 2015, he served as the vice chairman of the board of directors of China State-owned Industry Innovation Alliance and the vice chairman of the board of directors of Hong Kong-Mainland International Investment Society, respectively.

Mr. Zhao has served as the chairman of the board of directors and general manager of Chongqing Kangte Environmental Protection Industry Holdings Co., Ltd.* (重慶康特環保產業控股有限公司) since November 1994.

* *For identification purpose only*

DIRECTORS (Continued)

Executive Directors (Continued)

Mr. Zhang Weizhong (張為眾), aged 63, is our chief executive officer and an executive Director. He was appointed as the Director on 15 March 2013. He was appointed as the president of Chongqing Kangda on 25 September 2012. He completed a nine-month training programme of financial accounting in Sichuan Institute of Finance and Economics* (四川財經學院, currently known as Southwestern University of Finance and Economics* (西南財經大學)) located in Chengdu City, Sichuan Province, from October 1980 to July 1981 and graduated from Sichuan Radio and TV University* (四川廣播電視大學) located in Chengdu City, Sichuan Province, with a college degree* (大學專科) in industrial accounting in July 1986. Mr. Zhang Weizhong has over 30 years of experience of management and has obtained the qualification of senior accountant in the PRC granted by the People's Government of Chongqing Municipal* (重慶市人民政府) in December 1988. He was granted the title of Outstanding Accountant by the People's Government of Chongqing Municipal* (重慶市人民政府) in November 1982, Outstanding Accountant by Shizhong District Government of Chongqing* (重慶市市中區人民政府) in December 1982 and Senior Accounting Worker by Sichuan Province Government* (四川省人民政府) in December 1986.

Mr. Zhang Weizhong has served as an executive director of the Painting Branch of China Chemical Accounting Association* (中國化工會計學會塗料分會) since November 1991 and an executive director of Hainan Association of Chief Accountant* (海南省總會計師協會) since December 2004. Mr. Zhang held directorships in China Huandao (Group) Limited Company* (中國寰島集團公司), Sea Master Finance Limited (海領財務公司) and Cheer Harvest Industries Limited (資合實業有限公司). In addition, he was also the general manager and chairman of Huandao South Development Limited Company* (寰島南方實業發展有限公司), as well as the general manager and legal representative of Haikou Haidian Island Real Estate Development Limited Company* (海口海甸島房地產開發總公司). In January 2015, he served as the deputy secretary-general of China State-owned Industry Innovation Alliance.

Ms. Liu Zhiwei (劉志偉), aged 50, is our executive Director and was appointed as a Director on 15 May 2012. She joined our Group in 1996 and has served various positions, including chief accountant, chief officer of asset management department, deputy chief financial officer, audit director, executive director and vice president, and is currently responsible for the investor relationship and risk control matters of our Group. Ms. Liu has approximately 20 years of experience in the field of accounting. She obtained the qualification of senior accountant in the PRC granted by the People's Government of Chongqing Municipal* (重慶市人民政府) in November 2000.

* *For identification purpose only*

DIRECTORS (Continued)

Executive Directors (Continued)

Mr. Gu Weiping (顧衛平), aged 60, is our executive Director and was appointed as a Director on 15 May 2012. He joined our Group in 1996 and has served various positions, including general manager assistant, vice president and deputy chairman. He is currently responsible for the management of administrative and human resource affairs of our Group. He has also served as a director of Hebi Kangda and Kangda (Dongying) Environmental Protection Water Co., Ltd.* (康達(東營)環保水務有限公司) since February 2012 and November 2012, respectively. He completed the training course on administration and management for two years and graduated in political management and administration at elementary level* (黨政管理幹部基礎專修科專業) from Sichuan Radio and TV University* (四川廣播電視大學) located in Chongqing Municipal, in July 1986. He obtained the qualification of environmental engineer in the PRC granted by the People's Government of Chongqing Municipal* (重慶市人民政府) in September 1993. Mr. Gu Weiping has over 35 years of experience in the environmental protection industry. The research project he participated, namely the Research on the National Environmental Monitoring Standardisation of Analytical Methods* (全國環境監測分析方法標準化研究), won the Second Prize of Environmental Protection Science and Technology Progress Award* (環境保護科學技術進步二等獎) granted by the National Environmental Protection Bureau* (國家環境保護局) in October 1987. He was awarded by the People's Government of Chongqing Municipal* (重慶市人民政府) for his outstanding contribution to the development of engineering technology and projects on wastewater treatment in 1998 and 2011.

Mr. Wang Litong (王立彤), aged 46, is our executive Director and was appointed as a Director on 30 October 2013. He was appointed as the vice president of Chongqing Kangda in charge of marketing department, technology management department and water projects management department on 28 July 2011. He is currently in charge of the marketing and business development of our Group. He has also served as a director of Jilin Kangda and Hebi Kangda since September 2011 and February 2012, respectively, and a director of Nanchang Qingshanhu Sewage Treatment Co., Ltd.* (南昌青山湖污水處理有限公司) since its 20% equity interest was indirectly acquired by Chongqing Kangda in May 2013. He graduated from Tianjin Institute of Technology* (天津理工學院, currently known as Tianjin University of Technology* (天津理工大學)) located in Tianjin, with major in mechanical design in July 1991. He has more than 20 years of experience in relation to municipal environmental protection and was involved in a number of projects in municipal environmental design engineering, sewage treatment, solid waste disposal and research work on environmental protection facilities. Mr. Wang obtained the qualification of senior engineer in the PRC granted by the Tianjin Human Resource and Social Security Bureau* (天津市人力資源和社會保障局) in December 2010, and he has served as a member of the Committee for Drainage of Civil Engineering* (土木工程學會排水委員會) since November 2012. He has participated in the compilation of 10 sets of national standards in technology of construction and has been recognised by the Ministry of Housing and Urban – Rural Development of the PRC (中華人民共和國住房和城鄉建設部) for his outstanding consultancy, project design and development of technology.

*	*For identification purpose only*

DIRECTORS (Continued)

Non-executive Director

Mr. Zhuang Ping (莊平), aged 50, is a non-executive Director nominated by Baring Private Equity Asia V Holding (5) Limited. He joined our Group on 30 October 2013 when he was appointed as a non-executive Director. He obtained a bachelor degree in water supply and engineering from Xi'an Institute of Metallurgy and Construction* (西安冶金建築學院, currently known as Xi'an University of Architecture and Technology* (西安建築科技大學)) located in Xi'an City, Shaanxi Province, in July 1983, a master degree in environmental engineering from Tianjin University* (天津大學) located in Tianjin, in June 1988, a doctorate degree in civil and environmental engineering from Clarkson University in New York, the US, in May 1994. Mr. Zhuang became a grade II wastewater treatment plant operator granted by the Water Pollution Control System Operations Certification Commission of the State of North Carolina, the US, in February 1996, a professional engineer in North Carolina, the US, in February 1997, a professional engineer in Florida, the US, in October 1997. His engineering license has been recognised by the National Council of Examination for Engineering and Surveying in the US in July 1997. He has been working for more than 20 years in the fields of urban development, water and wastewater treatment, solid waste management, groundwater and soil remediation, energy efficiency as well as many other infrastructure projects related work, including research, investment planning (fund raising), feasibility studies, project development, financing, implementation, operation and maintenance. He has participated in Asia Development Bank (ADB) financed environmental protection projects in China, mainly responsible for project implementation and commissioning.

Mr. Zhuang has served as the chairman and general manager of Easen International Co., Ltd. (美國宜生國際有限公司) since October 2005.

Independent non-executive Directors

Mr. Tsui Yiu Wa Alec (徐耀華), aged 65, is an independent non-executive Director. He joined our Group on 30 October 2013 when he was appointed as an independent non-executive Director. Mr. Tsui graduated from the University of Tennessee located in Knoxville, Tennessee, the US, with a bachelor degree in science in industrial engineering in June 1975 and a master degree in engineering in June 1976 and completed the programme for senior managers in government at the John F. Kennedy School of Government at Harvard University located in Cambridge, Massachusetts, the US, in August 1993. Mr. Tsui has over 20 years of experience in finance and administration, corporate and strategic planning, information technology and human resources management.

Mr. Tsui Yiu Wa Alec served various positions, including the chief executive of the Stock Exchange from February 1997 to July 2000, the chief operating officer of Hong Kong Exchanges and Clearing Limited (香港交易及結算所有限公司) from March 2000 to July 2000 and the chairman of Hong Kong Securities Institute (香港證券專業學會) from December 2001 to December 2004. Mr. Tsui has been the chairman of the board of directors of WAG Worldsec Corporate Finance Limited (香港華高和昇財務顧問有限公司), a private company which provides professional consulting services and financial solutions to corporations, since February 2006, mainly responsible for overall strategic direction and operational management.

* *For identification purpose only*

DIRECTORS (Continued)

Independent Non-executive Directors (Continued)

Mr. Tsui is also the independent non-executive director of Industrial and Commercial Bank of China (Asia) Limited. He is also the independent non-executive director of a number of listed companies in Hong Kong, namely, COSCO International Holdings Limited, China Power International Development Limited, Melco Crown Entertainment Limited, Pacific Online Limited, China Oilfield Services Limited and Summit Ascent Holdings Limited as well as independent non-executive director of certain companies listed overseas including ATA INC (listed on National Association of Securities Deal Automated Quotation (NASDAQ) in the US) and Melco Crown (Philippines) Resorts Corporation (listed in the Republic of Philippines).

Mr. Yuan Shaoli (袁紹理), aged 60, is an independent non-executive Director. He joined our Group on 30 October 2013 when he was appointed as an independent non-executive Director. Mr. Yuan completed a programme provided by the department of finance, international trade and economics at Graduate School of Chinese Academy of Social Sciences* (中國社會科學院研究生院) located in Beijing with his major in international trade, in September 1998. Mr. Yuan had served as the deputy division chief, the division chief and a director of one of the central state ministries of the PRC for several years. He is familiar with Chinese laws and regulations and has extensive experience in business management, asset management, human resource management and public relations.

Mr. Yuan is the executive director and chairman of China Chengtong Development Group Limited* (中國誠通發展集團有限公司) which is listed in Hong Kong.

Mr. Peng Yongzhen (彭永臻), aged 65, is an independent non-executive Director. He joined our Group on 26 February 2015 when he was appointed as an independent non-executive Director. Mr. Peng graduated from Harbin Institute of Technology* (哈爾濱工業大學) (formerly known as Harbin University of Architecture and Engineering (哈爾濱建築大學), the same below) in June 1995 with a doctor degree in environmental engineering and was a senior visiting scholar in Gunma University (日本群馬大學) from October 1996 to April 1997. Mr. Peng previously held various positions in water supply and sewerage engineering major in the urban construction department of Harbin Institute of Technology* (哈爾濱工業大學), including the teaching assistant position from September 1976 to October 1978, the teaching assistant, lecturer and associate professor positions from December 1981 to September 1993, and the professor position from September 1993 to February 2000. Since 2000, he has been a professor, a tutor of doctoral candidates and the chief of the environmental engineering department and water pollution control research laboratory in Beijing University of Technology* (北京工業大學), and the chief of Beijing Engineering Technology Research Center of Sewage Nitrogen and Phosphorus Removal* (北京市污水脫氮除磷處理工程技術研究中心) of Beijing University of Technology, concurrently.

* *For identification purpose only*

DIRECTORS (Continued)

Independent Non-executive Directors (Continued)

He has long been engaged in the research of urban sewage disposal measures, of which some technological achievements have been massively applied into practice. Mr. Peng has earned diverse national-level titles and awards for his academic achievements, including without limitations National Role Model Lecturer* (全國模範教師) in 2007, National Outstanding Faculty* (國家教學名師) in 2009 and National Excellent Technical Personnel* (全國優秀科技工作者) in 2012. He was selected to be one of the first talents sponsored by National Special Support Plan for High-level Personnel* (國家高層次人才特殊支持計劃) in 2013. He was granted the Second Prize of National Prize for Progress in Science and Technology* (國家科技進步獎) in 2004, 2009 and 2012, respectively, and the First Prize of Beijing Municipal Prize for Progress in Science and Technology* (北京市科技進步獎) in 2012. Mr. Peng received a special allowance from China's State Council in 2000.

Mr. Song Qianwu (宋乾武), aged 60, is an independent non-executive Director. He joined our Group on 30 October 2013 when he was appointed as an independent non-executive Director. Mr. Song graduated from Tsinghua University* (清華大學) located in Beijing, with a bachelor's degree in engineering physics in January 1978, a master's degree in environmental engineering in July 1985 and a doctorate degree in engineering in April 1991. Mr. Song has about 20 years of experience in environmental engineering. He obtained the qualification of professor of environmental engineering granted by the MEP in April 2005 and the qualification of registered environmental protection engineer in PRC granted by the Ministry of Personnel of the PRC* (中華人民共和國人事部), the MOHURD and the MEP in July 2008. He has published and presented more than 70 papers in domestic and international academic journals or at academic conferences. Mr. Song won awards from 1994 to 2010 for his valuable contribution in environmental protection, infrastructure and technology, and waste treatment in the PRC. Mr. Song was also awarded as the outstanding individual of Chinese Research Academy of Environmental Sciences* (中國環境科學研究院) for his contribution to emergency controlling of pollution in Songhua River* (松花江應急污染控制).

Mr. Song served in a number of committees or associations, including being an executive member of Solid Waste Treatment and Utilisation Committee of China Association of Environmental Protection Industry* (中國環保產業協會固體廢物處理利用專業委員會常務委員) in July 1994, a member of Examination Expert Group of Environmental Protection Administration Committee of National Survey and Design Registered Engineer* (全國勘察設計註冊工程師環保專業管理委員會考察專家組) from February 2004 to February 2007, a member of the 4th editorial committee of Research of Environmental Sciences* (《環境科學研究》) since September 2004, an executive member of the 1st Session of China Urban Water Association* (中國城鎮供水排水協會第一屆理事會) in March 2007, a member of Expert Group of China Engineering Education Accreditation Association* (全國工程教育專業認證專家委員會) from April 2007 to April 2011, a member of 1st Science and Technology Committee of China Urban Water Association* (中國城鎮供水排水協會第一屆科學技術委員會) in November 2007 and a member of the editorial committee of the Journal of Environmental Engineering Technology* (《環境工程技術學報》) started from September 2010 for a term of five years.

* *For identification purpose only*

DIRECTORS (Continued)

Independent Non-executive Directors (Continued)

Mr. Song served as a part-time professor in the environmental engineering and management research centre of the Graduate School at Shenzhen* (深圳研究生院) of Tsinghua University* (清華大學) from June 2008 to June 2010 and from January 2012 to December 2013, a part-time professor in academy of environmental science and engineering of South China University of Technology* (華南理工大學) from December 2009 to November 2012 and a part-time professor in College of Water Science of Beijing Normal University* (北京師範大學水科學研究院) from December 2010 to November 2012. Mr. Song has also served as bid evaluation expert of Beijing Construction Engineering Tendering Co., Ltd.* (北京中交建設工程招標有限公司).

Mr. Song has resigned on 26 February 2015 before the expiration of his term of appointment.

SENIOR MANAGEMENT

Mr. Li Gang (李剛), aged 38, is chief financial officer of our Group primarily responsible for overseeing and coordinating the operation of our Group's finance department as well as managing the financial, accounting and taxation functions and financing activities of our Group. He joined our Group in July 2012 and was appointed as the chief financial officer of our Company on 26 September 2012. He worked in Ernst & Young from January 2008 to June 2012 and a number of CPA firms in China before he joined the Group. He obtained a bachelor's degree in accounting from the Beijing Institute of Light Industry* (北京輕工業學院) (now Beijing Technology and Business University* (北京工商大學)) located in Beijing in July 1998. He has been a fellow member of both the Chinese Institute of Certified Public Accountants and the Chinese Institute of Certified Public Valuers since August 2002 and January 2005, respectively.

Mr. Liang Zuping (梁祖平), aged 59, was appointed as the head of the auditing department of Chongqing Kangda on 28 July 2011, mainly responsible for the internal auditing and risk control matters of our Group. He joined our Group in July 1996 and has served various positions, including finance manager, deputy head of finance department, head and vice manager of finance department of construction management centre, manager of audit and supervision department, chief of tender committee, head of company supervision department and head of the auditing department. He has also served as a director of Chongqing Zhongya Technology Co., Ltd.* (重慶中雅科技有限公司), Tianjin Kangda Environmental Protection Water Co., Ltd* (天津康達環保水務有限公司), Harbin Kangda Environmental Protection Investment Co., Ltd.* (哈爾濱康達環保投資有限公司), Kangda Environmental Protection (Suzhou) Water Co., Ltd* (康達環保(宿州)水務有限公司), Suzhou Kangda Environmental Protection Sewage Treatment Co., Ltd.* (宿州康達環保污水處理有限公司) and Huadian Kangda Environmental Protection Water Co., Ltd* (樺甸康達環保水務有限公司) since October 2007, December 2010, February 2011, February 2011, March 2013 and August 2013, respectively. Mr. Liang completed the education programmes on senior industrial accounting in Chongqing Staff Accountant Training College* (重慶職工會計專科學校) located in Chongqing Municipal, in autumn 1981, spring 1983 and autumn 1983. He has also completed a two-year long-distance programme on economics and management in Beijing Economic Correspondence University* (北京經濟函授大學, currently known as Beijing Institute of Economic Management Correspondence College* (北京經濟管理函授學院)) located in Beijing, in January 1989. He passed the examination of college level accounting* (會計專業職務大專水平) in Sichuan Province in September 1988. He has over 20 years experience over accounting, financing and auditing affairs and was qualified as an accountant in the PRC granted by the Ministry of Finance of the PRC in November 1993.

* *For identification purpose only*

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the code provisions included in the corporate governance code (the "Corporate Governance Code") as set out in Appendix 14 of the Listing Rules. The Board is of the view that during the period since the date of Listing of the Company's Shares on the Main Board of the Stock Exchange on 4 July 2014 (the "Listing Date") to 31 December 2014, the Company has complied with the Corporate Governance Code and there has been no deviation from the code provisions as set forth under the Corporate Governance Code.

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

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

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

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

The Company has made specific enquiry to all of the Directors and all of the Directors have confirmed that they have complied with the required standard as set out in the Model Code throughout the period since the Listing Date to 31 December 2014.

THE BOARD OF DIRECTORS

The Board is responsible for leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performance. The Board has delegated to the chief executive officer, of which the Directors also undertake, and through him, to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

The composition of the Board is set out below:

Executive Directors

Zhao Juanxian (alias, Zhao Junxian) (Chairman)
Zhang Weizhong (Chief executive officer)
Liu Zhiwei
Gu Weiping
Wang Litong

Non-executive Director

Zhuang Ping

Independent non-executive Directors

Tsui Yiu Wa Alec
Yuan Shaoli
Peng Yongzhen (appointed on 26 February 2015)
Song Qianwu (resigned on 26 February 2015)

The Directors have no financial, business, family or other material/relevant relationships with each other.

During the period since the Listing Date to 31 December 2014, the Board at all time complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

A code provision of the Corporate Governance Code requires directors to disclose to the issuer the number and nature of offices held in public companies or organisations and other significant commitments as well as the natures of such companies or organisations and the time involved in such offices, each Director has agreed to disclose their commitments to the Company in a timely manner.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles and duties of the chairman and the chief executive officer of the Company are carried out by different individuals and have been clearly defined in writing.

The chairman of the Board (the "Chairman") is Mr. Zhao Juanxian (alias, Zhao Junxian) and the chief executive officer ("Chief Executive Officer") is Mr. Zhang Weizhong. The positions of Chairman and Chief Executive Officer are held by separate persons in order to preserve independence and a balance of views and judgement.

With the support of the senior management, the Chairman is responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service contract with us for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other.

The non-executive Director has signed an appointment letter issued by us regarding appointing him as the non-executive Director for a fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by the non-executive Director or by immediate notice in writing served by us.

Each of the independent non-executive Directors (except Mr. Peng Yongzhen) has entered into a service contract with us for an initial fixed term of one year commencing from 1 November 2013 and will continue thereafter until terminated by not less than one month's notice in writing served by either party to the other.

Mr. Peng Yongzhen has entered into a service contract with us for an initial fixed term of one year commencing from 26 February 2015 and will continue thereafter until terminated by not less than one month's notice in writing served by either party to the other.

In accordance with the articles of association of the Company (the "Articles of Association"), all Directors are subject to retirement by rotation at least once every three years and any new Director appointed by the Board to fill a causal vacancy shall submit himself/herself for re-election by Shareholders at the first general meeting after his/her appointment or in case as an addition to the Board, the new Director shall hold office only until the next following annual general meeting of the Company and then be eligible for re-election.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

The Board is collectively responsible for performing the corporate governance duties and formalised the inclusion of the following corporate governance duties into the terms of reference of the Board:

a. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

b. to review and monitor the training and continuous professional development of Directors and senior management;

c. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

d. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

e. to review the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report in the annual report of the Company.

The Board had reviewed and approved the corporate governance report contained in this annual report. The Board had also reviewed the Company's policies and practices on corporate governance and compliance with legal and regulatory requirements.

The Board had adopted a board diversity policy aiming to set out the approach to achieve the diversity of members of the Board to enhance the effectiveness of the Board. The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates of Board members will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

Each newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are continually updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for Directors will be arranged where necessary. Individual Directors also participated in the courses relating to the roles, functions and duties of a listed company director or further enhancement of their professional development by way of attending training courses or via online aids or reading relevant materials.

DIRECTORS' TRAINING

According to the records provided by the Directors, a summary of training received by the Directors for the year ended 31 December 2014 is as follows:

Name of Directors	Corporate Governance/ Updates on Laws, Rules & Regulations: Read Materials	Attend Seminars/ Briefing
Executive Directors		
Zhao Juanxian (alias, Zhao Junxian) (Chairman)	√	√
Zhang Weizhong (Chief executive officer)	√	√
Liu Zhiwei	√	√
Gu Weiping	√	√
Wang Litong	√	√
Non-executive Director		
Zhuang Ping	√	√
Independent Non-executive Directors		
Tsui Yiu Wa Alec	√	√
Yuan Shaoli	√	√
Peng Yongzhen (appointed on 26 February 2015)	N/A	N/A
Song Qianwu (resigned on 26 February 2015)	√	√

BOARD MEETINGS

Notice of regular Board meetings will be dispatched to all Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

The senior management, including Chief Executive Officer and chief financial officer, attend all regular Board meetings and where necessary, other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and final versions are open for Directors' inspection.

The Articles of Association contains provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

DIRECTORS' ATTENDANCE RECORDS

During the year ended 31 December 2014, six Board meetings (which included 2 regular Board meetings since the Listing Date) were held, including for reviewing and approving the submission of listing application to Stock Exchange, the adoption of amendment on the memorandum and Article of Association of the Company, reviewing and approving the interim results for the six months ended 30 June 2014, for reviewing and approving the draft corporate governance review conducted by Ernst & Young (China) Advisory Limited, for reviewing and approving the grant of share options to the Directors and senior management of the Company, and considering and approving the overall strategies and policies of the Company.

The attendance records of each Director at the Board meetings during the year ended 31 December 2014 are set out below:

Name of Directors	Attendance/ Number of Meetings
Executive Directors	
Zhao Juanxian (alias, Zhao Junxian) (Chairman)	6/6
Zhang Weizhong (Chief Executive Officer)	6/6
Liu Zhiwei	6/6
Gu Weiping	6/6
Wang Litong	6/6
Non-executive Director	
Zhuang Ping	6/6
Independent Non-executive Directors	
Tsui Yiu Wa Alec	6/6
Yuan Shaoli	6/6
Peng Yongzhen (appointed on 26 February 2015)	N/A
Song Qianwu (resigned on 26 February 2015)	6/6

DELEGATION BY THE BOARD

The Board undertakes responsibility for decision making in major Company matters, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to its Chief Executive Officer and the senior management.

BOARD COMMITTEES

The Board has established three committees, namely, the nomination committee, remuneration committee and audit committee.

NOMINATION COMMITTEE

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

The Nomination Committee held one meeting during the year ended 31 December 2014 and the attendance records are set out below:

Name of Directors	Attendance/ Number of Meetings
Mr. Zhao Juanxian (alias, Zhao Junxian) (Chairman)	1/1
Mr. Zhang Weizhong	1/1
Mr. Tsui Yiu Wa Alec	1/1
Mr. Yuan Shaoli	1/1
Mr. Peng Yongzhen (appointed on 26 February 2015)	N/A
Mr. Song Qianwu (resigned on 26 February 2015)	1/1

The Nomination Committee had reviewed the size, structure and composition of the Board to complement the Group's corporate strategy, nominated candidates to fill the casual vacancy arising from the resigning Director during the year ended 31 December 2014.

REMUNERATION COMMITTEE

The Company has established a remuneration committee on 30 October 2013 (the "Remuneration Committee") with written terms of reference in compliance with paragraph B.1 of the Corporate Governance Code and Rule 3.25 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 Directors and senior management. The Remuneration Committee currently consists of three members, namely Mr. Yuan Shaoli, Mr. Gu Weiping and Mr. Peng Yongzhen, and Mr. Yuan Shaoli is the chairman of the Remuneration Committee.

The Remuneration Committee has reviewed the Directors' fees (including executive Directors, non-executive Director and independent non-executive Directors) in consideration of the increasing level of duties and responsibilities and market conditions; reviewed and approved the details of implementation of the Share Option Scheme adopted on 14 June 2014 and approved the grant of share options on 19 December 2014, and approval of the remuneration incentive structure of the Group as a whole taking consideration of factors such as salaries paid by comparable companies, time commitment and their responsibilities.

The Remuneration Committee held one meeting during the year ended 31 December 2014 and the attendance records are set out below:

Name of Directors	Attendance/ Number of Meetings
Mr. Yuan Shaoli (Chairman)	1/1
Mr. Gu Weiping	1/1
Mr. Peng Yongzhen (appointed on 26 February 2015)	N/A
Mr. Song Qianwu (resigned on 26 February 2015)	1/1

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2014 are set out in Note 8 to the Consolidated Financial Statements.

The biographies of the senior management are disclosed in the section headed "***Directors and Senior Management***" in this report. Remuneration paid to the senior management (excluding the Directors) by bands for the year ended 31 December 2014 is set out below:

Remuneration bands	Number of individuals
Nil to HK$1,000,000	—
HK$1,000,000 to HK$1,500,000	3

AUDIT COMMITTEE

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

The Audit Committee has reviewed the annual results and annual report of the Group for the year ended 31 December 2014. 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.

During the year ended 31 December 2014, the Audit Committee discussed with the management of the Company the internal controls and financial reporting matters, and reviewed the accounting principles and practices adopted by the Group and the effectiveness of the Group's internal control system. The Audit Committee also met with the external auditor twice to reviewed the interim report of the Company for the six months ended 30 June 2014 and discuss the annual audit planning of the Company for the year ended 31 December 2014.

The Audit Committee held two meetings during the year ended 31 December 2014 and the attendance records are set out below:

Name of Directors	Attendance/ Number of Meetings
Mr. Tsui Yiu Wa Alec (Chairman)	2/2
Mr. Yuan Shaoli	2/2
Mr. Peng Yongzhen (appointed on 26 February 2015)	N/A
Mr. Song Qianwu (resigned on 26 February 2015)	2/2

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2014. The Directors consider that the Group has adequate resources to continue in business for the foreseeable future and are not aware of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's consolidated financial statements, which are put to the Board for approval.

INTERNAL CONTROLS

During the period from the Listing Date to 31 December 2014, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Board is responsible for maintaining an adequate internal control system to safeguard Shareholder investments and Company's assets and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The internal auditor and senior management review and evaluate the control process, monitor any risk factors on a regular basis, and report to the Audit Committee on any findings and measures to address the variances and identified risks.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about its reporting responsibilities for the Consolidated Financial Statements is set out in the ***"Independent Auditors' Report"*** on page 49.

During the year ended 31 December 2014, the remuneration paid/payable to the Company's independent auditor, Ernst & Young, is set out below:

	RMB
Annual audit services	3,000,000
Total fees	3,000,000

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable Shareholders and investors to make the best investment decisions. The general meetings of the Company provide a forum for face-to-face communication between the Board and the Shareholders dialogue. The Chairman as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available to answer questions at Shareholder meetings.

Since the Listing Date up to 31 December 2014, no general meeting was held.

To promote effective communication, the Company maintains on its website up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted and are available for public access.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

On 14 June 2014, the Company passed a resolution to approve and adopt the new Articles of Association, which was effective on the Listing Date. The updated Articles of Association was published on the website of the Stock Exchange. Save for the above, the Company has not made any significant changes to its constitutional documents during the year ended 31 December 2014.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at Shareholders' meetings, including the election of individual Directors.

All resolutions put forward at Shareholders' meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each Shareholders' meeting.

Shareholders who intend to put forward their enquiries to the Board could send their enquiries to the Company's principal place of business in Hong Kong or the headquarters in the PRC or by email to kangda@kangdaep.com. Shareholders can contact Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar of the Company, if they have any enquiries about their shareholdings and entitlements to dividend.

CONVENING OF EXTRAORDINARY GENERAL MEETINGS AND PUTTING FORWARD PROPOSALS

Pursuant to the Articles of Association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

ENQUIRIES TO THE BOARD

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the Company's principal place of business in Hong Kong.

COMPANY SECRETARY

The Company engages Ms. Chan Yin Wah ("Ms. Chan") of SW Corporate Services Group Limited, as its company secretary. Her primary corporate contact person at the Company is Mr. Cheng Wing Hong, Investor Relations Manager. In compliance with Rule 3.29 of the Listing Rules, Ms. Chan has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2014.

REPORT OF DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2014.

COMPANY INFORMATION AND GLOBAL OFFERING

The Company was incorporated in the Cayman Islands on 22 August 2011 as an exempted company with limited liability under the Companies Law of the Cayman Islands (the "Companies Law"). The Shares were listed on the Stock Exchange on 4 July 2014.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in the design, construction and engineering of wastewater treatment plants ("WTPs") and municipal infrastructures, and operation of WTPs in the PRC.

RESULTS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of profit or loss and other comprehensive income on page 51 of this annual report.

FINAL DIVIDENDS

The Board did not recommend the payment of final dividend for the year ended 31 December 2014.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities, which are extracted from the Prospectus of Global Offering and the annual report of the Company for the year ended 31 December 2014, are set out on page 144 of this report. This summary does not form part of the audited consolidated financial statements.

USE OF NET PROCEEDS FROM LISTING

Details of the use of net proceeds from Listing are set out on pages 15 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2014, the Group's five largest suppliers accounted for 41% of the Group's total purchases and purchase from the Group's largest supplier included therein amounted to 11% of the total purchases for the year.

For the year ended 31 December 2014, the Group's sales to its five largest customers accounted for 61% of the Group's total sales and sales to the largest customer included therein amounted to 22% of the total sales for the year.

None of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2014 are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2014 are set out in note 28 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2014 are set out in note 30 and in the consolidated statement of changes in equity, respectively on page 54 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company's reserves available for distribution, calculated in accordance with the provisions of Companies Law, amounted to approximately RMB1,769.8 million.

BANK LOANS AND OTHER BORROWINGS

Particulars of interest-bearing bank borrowings of the Group as at 31 December 2014 are set out in note 27 to the consolidated financial statements.

REPORT OF DIRECTORS

DIRECTORS

The Directors during the year ended 31 December 2014 and up to the date of this annual report were:

Executive Directors:

Zhao Juanxian (alias, Zhao Junxian) (Chairman)
Zhang Weizhong (Chief Executive Officer)
Liu Zhiwei
Gu Weiping
Wang Litong

Non-executive Director:

Zhuang Ping

Independent non-executive Directors:

Tsui Yiu Wa Alec
Yuan Shaoli
Peng Yongzhen (appointed on 26 February 2015)
Song Qianwu (resigned on 26 February 2015)

In accordance with the Articles of Association of the Company, Mr. Zhao Juanxian (alias, Zhao Junxian), Ms. Liu Zhiwei and Mr. Tsui Yiu Wa Alec will retire by rotation, and being eligible, have offered themselves for re-election as Directors at the forthcoming annual general meeting of the Company.

Details of the Directors to be re-elected at the forthcoming annual general meeting of the Company are set out in the circular to the Shareholders.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 19 to 25 of this report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has confirmed their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent in accordance with the Listing Rules.

DIRECTORS' SERVICE CONTRACTS AND LETTER OF APPOINTMENTS

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other.

The non-executive Director has signed an appointment letter for a fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by the non-executive Director or by immediate notice in writing served by the Company.

Each of the independent non-executive Directors (except Mr. Peng Yongzhen) has entered into a service contract with the Company for an initial fixed term of one year commencing from 1 November 2013 and will continue thereafter until terminated by not less than one's month notice in writing served by either party to the other.

Mr. Peng Yongzhen has entered into a service contract with the Company for an initial fixed term of one year commencing from 26 February 2015 and will continue thereafter until terminated by not less than one month's notice in writing served by either party to the other.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2014.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2014.

SHARE OPTION SCHEME

The Company has 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 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 person for the time being seconded to work full-time or part-time for any member of the Group ("Employee");

(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 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 200,000,000, representing 10% of the issued share capital of the Company.

Maximum entitlement of each participant

No Option may be granted to any one person such that the total number of Shares 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 Eligible Person would result in the Shares 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 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.

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 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).

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 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.

Amount payable on acceptance of the option and the payment period

To accept the grant of an Option, HK$1 as consideration for the grant of an Option must be received by the Company from the grantee within 30 days from the date on which the board resolution approves the grant of Options.

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 Share;

(b) The closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and

(c) The average closing price of a Share 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.

On 19 December 2014, the Company has granted a total of 84,500,000 Options to subscribe 84,500,000 Shares in conformity with the Share Option Scheme to certain Directors.

None of the share options were exercised by the grantees, or cancelled by the Company as at 31 December 2014. The share options granted shall vest and become exercisable within one year from the relevant date of vesting in three tranches in the proportion of 30%, 30% and 40% at the end of the 12th, 24th and 36th month after the date of grant, unless otherwise determined by the Company at its discretion in exceptional circumstances.

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

Name of grantee	Date of grant of options	Number of options as at 1 January 2014	Number of options granted during the year	Exercise price per Share HK$	Exercise period	Closing price as at the date of grant of options HK$	Number of options exercised/ cancelled/ lapsed during the year	Number of options as at 31 December 2014
Director								
Zhang Weizhong (also the Chief Executive Officer)	19/12/2014	—	6,500,000	3.386	19/12/2015 to 18/12/2018	3.340	—	6,500,000
Liu Zhiwei	19/12/2014	—	5,500,000	3.386	19/12/2015 to 18/12/2018	3.340	—	5,500,000
Gu Weiping	19/12/2014	—	5,000,000	3.386	19/12/2015 to 18/12/2018	3.340	—	5,000,000
Wang Litong	19/12/2014	—	5,000,000	3.386	19/12/2015 to 18/12/2018	3.340	—	5,000,000
Other Employees (in aggregate)	19/12/2014	—	62,500,000	3.386	19/12/2015 to 18/12/2018	3.340	—	62,500,000
Total		—	84,500,000				—	84,500,000

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

The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

EMOLUMENT POLICY

A Remuneration Committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five highest paid individuals are set out in note 9 to the consolidated financial statements.

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

As at 31 December 2014, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of issued share capital of the Company
Mr. Zhao Juanxian[(1)] (alias, Zhao Junxian)	Person acting in concert/long position	1,094,922,004	52.96%
Mr. Zhang Weizhong	Beneficial owner/long position	6,500,000	0.31%
Ms. Liu Zhiwei	Beneficial owner/long position	5,500,000	0.27%
Mr. Gu Weiping	Beneficial owner/long position	5,000,000	0.24%
Mr. Wang Litong	Beneficial owner/long position	5,000,000	0.24%

Note:

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

Save as disclosed above, as at 31 December 2014, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the year ended 31 December 2014 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2014, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of issued share capital of the Company
Mr. Zhao Sizhen[(1)]	Interest in controlled corporation/long position	1,094,922,004	52.96%
Kangda Holdings Company Limited[(2)]	Beneficial owner/long position	1,094,922,004	52.96%
Baring Private Equity Asia V Holding (5) Limited[(3)]	Beneficial owner/long position	405,077,996	19.59%
The Baring Asia Private Equity Fund V, L.P.[(3)]	Interest in controlled corporation/long position	405,077,996	19.59%
Baring Private Equity Asia GP V, L.P.[(3)]	Interest in controlled corporation/long position	405,077,996	19.59%
Baring Private Equity Asia GP V Limited[(3)]	Interest in controlled corporation/long position	405,077,996	19.59%
Jean Eric Salata[(3)]	Interest in controlled corporation/long position	405,077,996	19.59%

Notes:

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

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

(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 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, and as at 31 December 2014, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period since the Listing Date up to 31 December 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands where the Company was incorporated, which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

NON-COMPETITION UNDERTAKING

Each of Mr. Zhao Sizhen, Mr. Zhao Juanxian (alias, Zhao Junxian) and Kangda Holdings Company Limited (the "Controlling Shareholders") has executed a deed of non-competition in favour of the Company, pursuant to which they have jointly, severally and irrevocably undertaken with the Company (for itself and for benefit of its subsidiaries) not to, whether directly or indirectly, either on its or his own account or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any subsidiary of the Company).

The Controlling Shareholders have confirmed in writing to the Company of their compliance with the deed of non-competition for disclosure in this report during the period from the Listing Date to 31 December 2014.

The independent non-executive Directors have reviewed the deed of non-competition whether the Controlling Shareholders have abided by the non-competition undertaking. The independent non-executive Directors confirmed that they had determined that the Controlling Shareholders have not been in breach of the non-competition undertaking during the period from the Listing Date to 31 December 2014.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, as at 31 December 2014, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

CONNECTED TRANSACTION

Pursuant to Rule 14A.09 of the Listing Rules, as Jinlin Kangda, Hebi Kangda, Four Subsidiaries from Shandong Guohuan and Xinzhongzhou Water are insignificant subsidiaries of the Group, the related party transactions between the Group and their respective non-controlling shareholders set out in note 36 of the consolidated financial statements do not constitute connected transactions or continuing connected transactions under the Listing Rules.

As set out in Note 36 of the consolidated financial statements, certain bank borrowings of the Group were guaranteed by Mr. Zhao Juanxian, Mr. Zhao Sizhen and by Chongqing Kangte Environmental Protection Industry Holdings Co., Ltd. ("Chongqing Kangte"), which constitute continuing connected transactions under Chapter 14A of the Listing Rules. However, pursuant to Rule 14A.90 of the Listing Rules, as the guarantees provided by Mr. Zhao Juanxian, Mr. Zhao Sizhen and by Chongqing Kangte were conducted on normal commercial terms and not secured by the assets of the Group, the guarantees provided by Mr. Zhao Juanxian, Mr. Zhao Sizhen and by Chongqing Kangte set out in note 36 of the consolidated financial statements are fully exempted from reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Save as disclosed above, the other transactions set in note 36 of the consolidated financial statements either do not constitute connected transactions or continuing connected transactions of the Company or are exempted from reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

NON-COMPLIANCE

As disclosed in the paragraph headed "Non-compliance" in the business section of the Prospectus, Huadian Kangda Environmental Protection Water Co., Ltd.* (樺甸康達環保水務有限公司, "Huadian Kangda") operated without a valid sewage discharge permit during the three years ended 31 December 2013 and up to the date of 13 June 2014. On 4 November 2014, Huadian Kangda obtained a temporary sewage discharge permit from Huadian Environmental Protection Agency* (樺甸市環境保護局) for a period from 4 November 2014 to 31 December 2014.

Save as disclosed above, as at 31 December 2014 and up to the date of this annual report, the historical non-compliance instances disclosed in the paragraph headed "Non-compliance" in the business section of the Prospectus were still under the progress of rectification. For further details of such historical non-compliance instances, please refer to the paragraph headed Non-compliance" in the business section of the Prospectus. The Company will provide further information in its subsequence interim and annual report if there is any further update on the status of such non-compliance instances.

* *For identification purpose only*

CHARITABLE DONATIONS

During the year ended 31 December 2014, charitable donations made by the Group in Hong Kong were approximately HK$1 million.

POST BALANCE SHEET EVENTS

The material post balance sheet events are disclosed in note 40 to the consolidated financial statements in this report.

AUDIT COMMITTEE

The audit committee had reviewed together with the management and independent auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2014.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code contained in the Listing Rules. Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with such code of conduct during the period from the Listing Date to 31 December 2014.

CORPORATE GOVERNANCE

The Company is committed to strengthening the corporate governance practices of the Group. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 26 to 36 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, are held by the public at all times as at the date of this report.

AUDITOR

Ernst & Young has acted as auditor of the Company for the year ended 31 December 2014.

Ernst & Young shall retire in the forthcoming annual general meeting and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Zhao Juanxian (alias, Zhao Junxian)
Chairman

Hong Kong, 26 March 2015

INDEPENDENT AUDITORS' REPORT

EY 安永

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

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

We have audited the consolidated financial statements of Kangda International Environmental Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 51 to 143, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
26 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
REVENUE	4	**1,812,781**	1,339,679
Cost of sales		**(1,087,579)**	(826,258)
Gross profit		**725,202**	513,421
Other income and gains	5	**47,560**	48,455
Selling and distribution expenses		**(8,461)**	(8,659)
Administrative expenses		**(169,168)**	(103,906)
Other expenses		**—**	(3,939)
Finance costs	7	**(218,978)**	(167,698)
Share of profit and loss of an associate		**5,561**	4,005
PROFIT BEFORE TAX	6	**381,716**	281,679
Income tax expense	10	**(85,241)**	(49,050)
PROFIT FOR THE YEAR		**296,475**	232,629
OTHER COMPREHENSIVE INCOME		**—**	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**296,475**	232,629
Attributable to:			
Owners of the parent	11	**294,788**	231,563
Non-controlling interests		**1,687**	1,066
		296,475	232,629
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
		RMB	RMB
– Basic and diluted		**16.60 cents**	15.44 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	31 December 2014 RMB'000	31 December 2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**79,522**	80,303
Investment properties	14	**2,108**	2,366
Investment in an associate	17	**48,754**	50,393
Intangible assets	15	**1,321**	845
Financial receivables	18	**4,047,483**	2,571,274
Deferred tax assets	19	**30,239**	15,449
Total non-current assets		**4,209,427**	2,720,630
CURRENT ASSETS			
Inventories	20	**5,248**	3,108
Construction contracts	21	**420,670**	551,325
Financial receivables	18	**1,072,687**	714,398
Trade and bills receivables	22	**503,266**	229,362
Prepayments, deposits and other receivables	23	**140,289**	80,098
Pledged deposits	24	**511,940**	139,324
Cash and cash equivalents	24	**747,283**	275,562
Total current assets		**3,401,383**	1,993,177
CURRENT LIABILITIES			
Trade and bills payables	25	**725,393**	537,452
Other payables and accruals	26	**133,596**	53,456
Interest-bearing bank borrowings	27	**1,745,781**	785,341
Tax payable		**10,190**	4,915
Total current liabilities		**2,614,960**	1,381,164
NET CURRENT ASSETS		**786,423**	612,013
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,995,850**	3,332,643
NON-CURRENT LIABILITIES			
Trade and bills payables	25	**2,974**	6,440
Interest-bearing bank borrowings	27	**1,811,023**	1,802,048
Deferred tax liabilities	19	**257,138**	171,425
Total non-current liabilities		**2,071,135**	1,979,913
Net assets		**2,924,715**	1,352,730

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	**31 December 2014 RMB'000**	31 December 2013 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Issued capital	28	**16,444**	—
Reserves	30	**2,826,469**	1,340,381
		2,842,913	1,340,381
Non-controlling interests		**81,802**	12,349
Total equity		**2,924,715**	1,352,730

Zhang Weizhong
Director

Liu Zhiwei
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

	Attributable to owners of the parent								
	Issued capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Special reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2014	—	601,378	368,355	—	—	370,648	1,340,381	12,349	1,352,730
Profit for the year	—	—	—	—	—	294,788	294,788	1,687	296,475
Other comprehensive income	—	—	—	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	—	294,788	294,788	1,687	296,475
Capitalisation upon the listing (a)	11,930	(11,930)	—	—	—	—	—	—	—
Issue of shares (b)	4,514	1,259,245	—	—	—	—	1,263,759	—	1,263,759
Share issue expenses	—	(57,206)	—	—	—	—	(57,206)	—	(57,206)
Acquisition of subsidiaries (c)	—	—	—	—	—	—	—	67,766	67,766
Equity-settled share option arrangements (d)	—	—	—	—	1,191	—	1,191	—	1,191
Transfer to special reserve (e)	—	—	—	16,618	—	(16,618)	—	—	—
Utilisation of special reserve (e)	—	—	—	(16,618)	—	16,618	—	—	—
As at 31 December 2014	16,444	1,791,487*	368,355*	—*	1,191*	665,436*	2,842,913	81,802	2,924,715
As at 1 January 2013	—	601,378	368,355	—	—	139,085	1,108,818	7,283	1,116,101
Profit for the year	—	—	—	—	—	231,563	231,563	1,066	232,629
Other comprehensive income	—	—	—	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	—	231,563	231,563	1,066	232,629
Transfer to special reserve (e)	—	—	—	12,448	—	(12,448)	—	—	—
Utilisation of special reserve (e)	—	—	—	(12,448)	—	12,448	—	—	—
Capital contribution from a non-controlling shareholder	—	—	—	—	—	—	—	4,000	4,000
As at 31 December 2013	—	601,378*	368,355*	—*	—	370,648*	1,340,381	12,349	1,352,730

* These reserve accounts comprise the consolidated reserves of RMB2,826,469,000 (31 December 2013: RMB1,340,381,000) in the consolidated statement of financial position.

(a) Pursuant to the written resolutions of the shareholder of the Company, Kangda Holdings Company Limited (康達控股有限公司) ("Kangda Holdings"), passed on 14 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 of Hong Kong Limited (the "Stock Exchange") on 4 July 2014 (the "Capitalisation").

(b) 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 dated 23 June 2014, 500,000,000 ordinary shares of the Company of HK$0.01 each were issued at a price of HK$2.8 per share. 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.

(c) Non-controlling interests arose from the acquisition of 90% equity interests in four subsidiaries from Shandong Guohuan Industrial Investment Co., Ltd. (山東國環產業投資有限公司) ("Shandong Guohuan") and a 70% equity interest in Zhengzhou Xinzhongzhou Water Co., Ltd. (鄭州新中洲水務有限公司) ("Xinzhongzhou Water") (note 31).

(d) On 19 December 2014, the Company granted a total of 84,500,000 Share options to subscribe for a total of 84,500,000 ordinary shares in the share capital of the Company under the share option scheme adopted by the Company on 14 June 2014. The Group recognised a share option expense of RMB1,191,000 during the year ended 31 December 2014 (note 29).

(e) 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

		2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES	*Notes*	**RMB'000**	RMB'000
Profit before tax		**381,716**	281,679
Adjustments for:			
Finance costs	7	**218,978**	167,698
Foreign exchange differences	5	**(5,071)**	2,661
Share of profit and loss of an associate		**(5,561)**	(4,005)
Equity-settled share option arrangements		**1,191**	—
Interest income	5	**(10,098)**	(3,356)
Depreciation of property, plant and equipment	6,13	**6,310**	5,609
Depreciation of investment properties	6,14	**258**	258
Amortisation of intangible assets	6,15	**152**	102
Gains on disposals of items of property, plant and equipment	5	**(253)**	(20)
Bargain purchase gain on acquisition of subsidiaries	5	**(19,654)**	(18,529)
Impairment of trade receivables	6, 22	**(5,114)**	1,278
		562,854	433,375
Decrease in inventories		**22**	2,205
Increase in financial receivables		**(1,265,887)**	(644,813)
(Increase)/decrease in construction contracts		**130,655**	(164,242)
(Increase)/decrease in trade and bills receivables		**(241,905)**	14,228
(Increase)/decrease in prepayments, deposits and other receivables		**(1,265)**	102,768
Increase in trade and bills payables		**182,826**	109,423
Increase/(decrease) in other payables and accruals		**4,731**	(46,189)
Cash used in operations		**(627,969)**	(193,245)
Interest received	5	**10,098**	3,356
Income taxes paid		**(16,513)**	(15,884)
Net cash flows used in operating activities		**(634,384)**	(205,773)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment	13	**(3,762)**	(12,292)
Additions to intangible assets	15	**(628)**	(162)
Proceeds from disposals of items of property, plant and equipment		**396**	155
Acquisition of subsidiaries	31	**(325,232)**	(131,819)
Prepayment for acquisition		**(60,000)**	—
Dividends received from an associate		**7,200**	2,600
Increase in pledged deposits		**(372,616)**	(82,983)
Net cash flows used in investing activities		**(754,642)**	(224,501)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**1,909,535**	1,586,902
Repayment of bank loans		**(1,041,597)**	(1,259,616)
Interest paid		**(217,407)**	(166,543)
Proceeds from issue of shares		**1,209,906**	—
Capital contribution from a non-controlling shareholder		**—**	4,000
Net cash flows from financing activities		**1,860,437**	164,743
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**471,411**	(265,531)
Cash and cash equivalents at beginning of year		**275,562**	543,754
Effect of foreign exchange rate changes, net		**310**	(2,661)
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	**747,283**	275,562

STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	31 December 2014 RMB'000	31 December 2013 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	16	**1,212,032**	598,572
Total non-current assets		**1,212,032**	598,572
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	**559,554**	2,611
Cash and cash equivalents	24	**19,314**	241
Total current assets		**578,868**	2,852
CURRENT LIABILITIES			
Other payables and accruals	26	**4,689**	611
Total current liabilities		**4,689**	611
NET CURRENT ASSETS		**574,179**	2,241
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,786,211**	600,813
Net assets		**1,786,211**	600,813
EQUITY			
Issued capital	28	**16,444**	—
Reserves	30	**1,769,767**	600,813
Total equity		**1,786,211**	600,813

Zhang Weizhong
Director

Liu Zhiwei
Director

1. CORPORATE INFORMATION

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

The Company is an investment holding company and its subsidiaries are engaged in the design, construction and engineering of wastewater treatment plants (the "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).

Pursuant to the written resolutions of the shareholder of the Company, Kangda Holdings, passed on 14 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.

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 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.

The Company's shares were listed on the Main Board of the Stock Exchange on 4 July 2014. In connection with the Company's Global Offering as defined in the Prospectus dated 23 June 2014, 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 (the "Listing"). 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, the Global Offering and the completion of the over-allotment, the total number of ordinary shares of the Company is 2,067,515,000.

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

2.1 BASIS OF PREPARATION

These financial statements of the Company and its subsidiaries (collectively referred to as the "Group") have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance.

The financial statements have been prepared under the historical cost convention and are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand, except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 10, IFRS 12 and IAS 27	*Investment Entities*
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to IAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
IFRIC 21	*Levies*
Amendment to IFRS 2 included in *Annual Improvements 2010-2012 Cycle*	*Definition of Vesting Condition*[1]
Amendment to IFRS 3 included in *Annual Improvements 2010-2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendment to IFRS 13 included in *Annual Improvements 2010-2012 Cycle*	*Short-term Receivables and Payables*
Amendment to IFRS 1 included in *Annual Improvements 2011-2013 Cycle*	*Meaning of Effective IFRSs*

1 Effective for annual periods beginning on or after 1 July 2014

Except for the amendment to IFRS 1 which is only relevant to an entity's first IFRS financial statements, the nature and the impact of each amendment and interpretation is described below:

a) Amendments to IFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27. The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The amendments have had no impact on the Group as the Company does not qualify as an investment entity as defined in IFRS 10.

b) The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments have had no impact on the Group as the Group does not have any offsetting arrangement.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

c) The IAS 39 Amendments provide an exception to the requirement of discontinuing hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. For continuance of hedge accounting under this exception, all of the following criteria must be met: (i) the novations must arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and (iii) the novations do not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing. The amendments have had no impact on the Group as the Group has not novated any derivatives during the current and prior years.

d) IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation 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, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation has had no impact on the Group as the Group does not have such kind of levies.

e) The IFRS 2 Amendment clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including (i) a performance condition must contain a service condition; (ii) a performance target must be met while the counterparty is rendering service; (iii) a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group; (iv) a performance condition may be a market or non-market condition; and (v) if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The amendment has had no impact on the Group.

f) The IFRS 3 Amendment clarifies that contingent consideration arrangements arising from a business combination that are not classified as equity should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 or IAS 39. The amendment has had no impact on the Group.

g) The IFRS 13 Amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has had no impact on the Group.

2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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

IFRS 9	*Financial Instruments*[4]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[2]
Amendments to IAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to IAS 27 (2011)	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010-2012 Cycle	Amendments to a number of IFRSs[1]
Annual Improvements 2011-2013 Cycle	Amendments to a number of IFRSs[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs[2]
Amendments to IAS 1	*Disclosure Initiative*[2]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*[2]

1 Effective for annual periods beginning on or after 1 July 2014

2 Effective for annual periods beginning on or after 1 January 2016

3 Effective for annual periods beginning on or after 1 January 2017

4 Effective for annual periods beginning on or after 1 January 2018

5 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED *(continued)*

The amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

The amendments to IFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in IFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. The Group expects to adopt IFRS 15 on 1 January 2017 and is currently assessing the impact of IFRS 15 upon adoption.

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle issued in December 2013, and the Annual Improvements to IFRSs 2012-2014 Cycle issued in September 2014 set out amendments to a number of IFRSs. These improvements are not expected to have a material impact on the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

Investment in an associate

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in associate is stated in the consolidated statements of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associate is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associate is included as part of the Group's investment in associate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment in an associate *(continued)*

The results of associate are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investment in associate is treated as non-current asset and is stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets *(continued)*

An assessment is made at the end of reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings and other infrastructure	3.13%-4.50%
Machinery	6.67%-18.00%
Office equipment and others	9.50%-18.00%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each item of such properties to its residual value over its estimated useful life. The principal annual rate used for this purpose is as follows:

Buildings	4.50%

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 years.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Service concession arrangements

The Group has entered into a number of service concession arrangements with certain governmental authorities or their designees (the "Grantors"). The service concession arrangements consist of Build-Operate-Transfer (the "BOT") arrangements and Transfer-Operate-Transfer (the "TOT") arrangements. Under the BOT arrangements, the Group carries out construction work of the WTPs for the Grantors and receives in return a right to operate the WTPs concerned for a specified period of time (the "Operation Period") in accordance with the pre-established conditions set by the Grantors, the WTPs should be transferred to the Grantors with nil consideration at the end of the Operation Period. A TOT arrangement is similar to a BOT arrangement, except that the Group pays consideration for the right to operate WTPs that have been built.

Consideration given by the Grantors

A financial asset (financial receivable) is recognised to the extent that the Group has an unconditional right to receive cash or another financial asset from or at the direction of the Grantors for the construction services rendered and/or the consideration paid and payable by the Group for the right to operate WTPs, and the Grantors have little, if any, discretion to avoid payment, usually because the agreements are enforceable by law. The Group has an unconditional right to receive cash if the Grantors contractually guarantee to pay the Group specified or determinable amounts even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (financial receivable) is accounted for in accordance with the policy set out for loans and receivables under "Investments and other financial assets" below.

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for "Construction contracts" below.

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for "Revenue recognition" below. Costs for operating services are expensed in the period in which they are incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Build-Transfer (the "BT") arrangements

The Group carries out construction work of municipal infrastructures or infrastructures related to the WTPs under BT contracts for certain PRC governmental authorities or agencies of the government and agrees with these BT customers to have a repurchase agreement for the above construction services ranging from three to four years (the "Repurchase Period").

Consideration given by the BT customers

A financial asset (financial receivable) is recognised when the Group has an unconditional right under the BT arrangements to receive a fixed and determinable amount of payments during the Repurchase Period and is accounted for in accordance with the policy set out for loans and receivables under "Investments and other financial assets" below.

Construction services

Revenue and costs relating to construction services are accounted for in accordance with the policy set out for "Construction contracts" below.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of the year whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and interest-bearing bank borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the year, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below;

(b) from the rendering of operation service of the WTPs, when the service is provided;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial asset to the net carrying amount of the financial asset;

(d) rental income, on a time proportion basis over the lease terms; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Construction contracts

Contract revenue primarily comprises (i) the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments in respect of the construction services under the BT arrangements and (ii) the fair value of the construction services under the BOT arrangements. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

BT arrangements

Revenue from the construction services under the BT arrangements is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Construction contracts *(continued)*

BOT arrangements

Revenue from the construction services under the BOT agreements is estimated on a cost-plus basis with reference to the prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in similar locations, and is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the year. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

As at the end of the year, the assets and liabilities of these entities whose functional currencies differ from the presentation currency are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the year and the statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 29 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

<u>Other employee benefits</u> *(continued)*

Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Housing fund and other social insurances

The Group has participated in defined social security contribution schemes for its employees pursuant to the relevant laws and regulations of the PRC. These include housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances. The contributions are charged to profit or loss on an accrual basis. The Group has no further obligations beyond the contributions made.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

<u>Judgements</u>

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

Accounting for service concession arrangements

The Group engages in certain service concession arrangements in which the Group carries out construction work of the WTPs for the Grantors and receives in return a right to operate the WTPs concerned in accordance with the pre-established conditions set by the Grantors. In accordance with IFRIC Interpretation 12 *Service Concession Arrangements*, the WTPs under the service concession arrangements may be classified as intangible assets or financial assets. The WTPs are classified as intangible assets if the Group receives a right (a licence) to charge users of the public service or if the Grantors remunerate the Group on the basis of the extent of use of the WTPs by users, but with no guarantees as to the amounts that will be paid to the Group. Whenever only part of the investment by the Group under these service concession arrangements is covered by a payment commitment from the Grantors, it is recognised as a financial receivable up to the amount guaranteed by the Grantors, and as an intangible asset for the balance. The Group recognises a financial receivable if it has an unconditional contractual right under the service concession arrangements to receive a determinable amount of payments during the concession period irrespective of the usage of the WTPs.

Subsequent to initial recognition, the financial receivable is measured at amortised cost using the effective interest method.

Revenue from the construction service under the terms of service concession arrangements is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of agreement applicable to similar construction services rendered in similar locations, and is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. The Group's prevailing margins of gross construction margin were valued by Commercial Real Estate Services ("CBRE") and Crowe Horwath (HK) Consulting & Valuation Limited ("Crowe Horwath (HK)"), independent third-party valuers which have appropriate qualifications and recent experience in valuation of gross construction margin.

When the Group receives a payment during the concession period, it will apportion such payment among (i) a repayment of the financial receivables (if any), which will be used to reduce the carrying amount of the financial receivables on the statements of financial position, (ii) interest income, which will be recognised as revenue in profit or loss and (iii) revenue from operating and maintaining the WTPs in profit or loss.

Judgement is also exercised in determining the fair value of the financial receivables. Discount rates, estimates of future cash flows and other factors are used in the valuation process.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

Withholding tax arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends or on whether certain subsidiaries of the Group are determined to be Chinese resident enterprises by the PRC governing tax authorities in the future. Management considered that it is not probable that the Group's subsidiaries in the PRC will distribute retained profits as at the end of the year in the foreseeable future, and accordingly no additional provision for withholding tax was made. Where the final outcome of these matters is different from the amounts originally rewarded, the difference will impact the deferred tax provision in the period in which the difference arises.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of the asset. The estimation of the useful life of the asset is based on historical experience of the Group with similar assets that are used in a similar way. Depreciation amount will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at the end of the year, based on changes in circumstances.

Current income tax and deferred income tax

The Group is subject to income taxes in Hong Kong and Mainland China. Estimation is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the current income tax and deferred income tax in the periods in which the differences arise.

Deferred tax assets relating to certain temporary differences or unused tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or the unused losses can be utilised. The realisation of the deferred tax assets mainly depends on whether sufficient future profits will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a reversal takes place. Details of deferred tax assets are contained in note 19 to the financial statement.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Percentage of completion of construction contracts

The Group recognises revenue according to the percentage of completion of individual contracts of construction works, which requires estimation to be made by management. The stage of completion is estimated by reference to the actual costs incurred over the total budgeted costs. Due to the nature of the activity undertaken in construction works, the date at which the activity is entered into and the date at which the activity is completed usually fall into different accounting periods. Hence, the Group reviews and revises the percentage of completion of construction works. Where the actual contract revenue is less than expected or actual contract costs are more than expected, a foreseeable loss may arise.

Estimation of total budgeted costs and cost to completion for construction contracts

Total budgeted costs for construction contracts comprise (i) direct material costs and direct labour, (ii) costs of subcontracting, and (iii) an appropriation of variable and fixed construction overheads. In estimating the total budgeted costs for construction contracts, management makes reference to information such as (i) current offers from sub-contractors and suppliers, (ii) recent offers agreed with sub-contractors and suppliers, and (iii) professional estimation on material costs, labour costs and other costs.

Impairment of trade receivables and financial receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on its customers' creditworthiness and historical write-off experience. If the financial condition of its customers will deteriorate such that the actual impairment loss might be higher than expected, the Group would be required to revise the basis for making the allowance and its future results would be affected.

Financial receivables

Estimation is exercised in determining the fair values of the financial receivables at initial recognition. These fair values are computed on the discounted cash flow method using a discount rate based upon the market-related rate for a similar instrument as at the date of initial recognition. The assumptions and estimates used can materially affect the fair values of the financial receivables.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. Details of share-based payments are contained in note 29 to the financial statements.

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 BOT arrangements or the operation of WTPs under the TOT arrangements;

(b) the BT arrangements segment engages in the design, construction of municipal infrastructures or infrastructures related to WTPs;

(c) the "others" segment comprises, principally, the Group's management services business, which provides operation and management ("O&M") services, construction services related to other construction service projects and operation services for other water treatments.

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

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

Segment assets exclude investment properties, intangible assets, 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 purpose, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2014

	Service concession arrangements RMB'000	BT arrangements RMB'000	Others RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	1,499,578	167,535	145,668	1,812,781
	1,499,578	167,535	145,668	1,812,781
Segment results	644,095	96,602	14,497	755,194
Reconciliation:				
Unallocated income and gains				23,129
Corporate and other unallocated expenses				(177,629)
Finance costs				(218,978)
Profit before tax				381,716
Segment assets	5,287,740	978,173	27,429	6,293,342
Reconciliation:				
Corporate and other unallocated assets				1,317,468
Total assets				7,610,810
Segment liabilities	2,230,804	172,617	12,566	2,415,987
Reconciliation:				
Corporate and other unallocated liabilities				2,270,108
Total liabilities				4,686,095

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2014 *(continued)*

	Service concession arrangements RMB'000	BT arrangements RMB'000	Others RMB'000	Total RMB'000
Other segment information				
Investment in an associate	48,754	—	—	48,754
Share of profit and loss of an associate	5,561	—	—	5,561
Reversal of impairment of trade receivables	5,114	—	—	5,114
Depreciation and amortisation	1,500	—	1,301	2,801
Unallocated depreciation and amortisation				3,919
Total depreciation and amortisation				6,720
Capital expenditure	2,650	—	476	3,126
Unallocated amounts				1,264
Total capital expenditure*				4,390

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

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2013

	Service concession arrangements RMB'000	BT arrangements RMB'000	Others RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	1,030,359	301,842	7,478	1,339,679
	1,030,359	301,842	7,478	1,339,679
Segment results	460,898	100,892	(48)	561,742
Reconciliation:				
Unallocated income and gains				4,139
Corporate and other unallocated expenses				(116,504)
Finance costs				(167,698)
Profit before tax				281,679
Segment assets	3,434,000	769,622	31,728	4,235,350
Reconciliation:				
Corporate and other unallocated assets				478,457
Total assets				4,713,807
Segment liabilities	1,866,434	209,888	13,154	2,089,476
Reconciliation:				
Corporate and other unallocated liabilities				1,271,601
Total liabilities				3,361,077

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2013 *(continued)*

	Service concession arrangements RMB'000	BT arrangements RMB'000	Others RMB'000	Total RMB'000
Other segment information				
Investment in an associate	50,393	—	—	50,393
Share of profit and loss of an associate	4,005	—	—	4,005
Impairment losses recognised in the statement of profit or loss	1,278	—	—	1,278
Depreciation and amortisation	717	—	1,285	2,002
Unallocated depreciation and amortisation				3,967
Total depreciation and amortisation				5,969
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.

Geographical information

(a) Revenue from external customers

	2014 RMB'000	2013 RMB'000
Mainland China	**1,812,781**	1,339,679

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

3. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information *(continued)*

(b) Non-current assets

	2014 RMB'000	2013 RMB'000
Mainland China	**4,179,188**	2,705,181

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

Information about major customers

During the year, the revenues generated from the Group's customers who respectively amounted to over 10% of the Group's revenue, are as follows:

Year ended 31 December 2014

	Service concession arrangements RMB'000	BT arrangements RMB'000	Total RMB'000
Customer A	**398,008**	**—**	**398,008**
Customer B	**267,978**	**8,119**	**276,097**
	665,986	**8,119**	**674,105**

Year ended 31 December 2013

	Service concession arrangements RMB'000	BT arrangements RMB'000	Total RMB'000
Customer C	—	214,974	214,974
Customer B	136,270	11,227	147,497
	136,270	226,201	362,471

4. REVENUE

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

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

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

	2014 **RMB'000**	2013 RMB'000
Revenue from construction services	**1,106,077**	829,901
Revenue from operating services	**448,146**	328,008
Financial income	**258,558**	181,770
	1,812,781	1,339,679

5. OTHER INCOME AND GAINS

	2014 **RMB'000**	2013 RMB'000
Bargain purchase gain on acquisition of subsidiaries	**19,654**	18,529
Bank interest income	**10,098**	3,356
Reversal of impairment of trade receivables	**5,114**	—
Foreign exchange differences	**5,071**	—
Government grants (note a)	**4,777**	7,088
Rental income less depreciation of investment properties	**361**	334
Gains on disposals of items of property, plant and equipment, net	**253**	20
Arrangement fee from a BT customer	**—**	18,699
Others	**2, 232**	429
	47,560	48,455

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.

6. PROFIT BEFORE TAX

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

	Notes	2014 RMB'000	2013 RMB'000
Cost for construction services		854,407	650,535
Cost for operation services		233,172	175,723
Total of cost of services		1,087,579	826,258
Depreciation of property, plant and equipment	13	6,310	5,609
Amortisation of intangible assets	15	152	102
Impairment of trade receivables	22	—	1,278
Reversal of impairment of trade receivables	22	(5,114)	—
Minimum lease payments under operating leases for buildings		6,006	2,029
Auditors' remuneration		3,000	2,800
Employee benefit expense (including directors' remuneration):			
Wages, salaries and allowances, social securities and benefits		101,112	77,179
Pension scheme contributions (defined contribution scheme)		10,215	8,633
Equity-settled share option expenses		1,191	—
Total employee benefit expense		112,518	85,812
Operating lease income		(619)	(592)
Less: depreciation of investment properties	14	258	258
Rental income less depreciation of investment properties	5	(361)	(334)
Bank interest income	5	(10,098)	(3,356)
Government grants	5	(4,777)	(7,088)
Arrangement fee from a BT customer	5	—	(18,699)
Bargain purchase gain on acquisition of subsidiaries	5	(19,654)	(18,529)
Gains on disposals of items of property, plant and equipment, net	5	(253)	(20)
Foreign exchange differences, net	5	(5,071)	2,661

7. FINANCE COSTS

	2014 RMB'000	2013 RMB'000
Interest on bank borrowings	218,978	167,698

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	2014 RMB'000	2013 RMB'000
Fees	**1,278**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**5,142**	4,903
Equity-settled share option expenses	**312**	—
Pension scheme contributions (defined contribution scheme)	**148**	131
Total	**6,880**	5,034

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 29 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(i) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2014 RMB'000	2013 RMB'000
Mr. Tsui Yiu Wa Alec	**331**	—
Mr. Yuan Shaoli	**331**	—
Mr. Song Qianwu	**—**	—
	662	—

Mr. Tsui Yiu Wa Alec, Mr. Yuan Shaoli and Mr. Song Qianwu were appointed as independent non-executive directors with effect from October 2013. Subsequent to the year end date, Mr. Peng Yongzhen was appointed as the independent non-executive director in replacement of Mr. Song Qianwu with effect from February 2015.

8. DIRECTORS' REMUNERATION *(continued)*

(ii) Executive directors, non-executive directors

Year ended 31 December 2014	Fees RMB'000	Equity- settled share option expenses RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:					
Mr. Zhao Juanxian					
(alias Zhao Junxian) (趙雋賢)	141	—	1,823	—	1,964
Mr. Zhang Weizhong (張為眾) (i)	95	92	1,516	—	1,703
Ms. Liu Zhiwei (劉志偉)	95	78	569	40	782
Mr. Gu Weiping (顧衛平)	95	71	620	54	840
Mr. Wang Litong (王立彤) (ii)	95	71	614	54	834
	521	312	5,142	148	6,123
Non-executive directors:					
Mr. Zhuang Ping (莊平) (iii)	95	—	—	—	95
	616	312	5,142	148	6,218
Year ended 31 December 2013					
Executive directors:					
Mr. Zhao Juanxian					
(alias Zhao Junxian) (趙雋賢)	—	—	1,807	—	1,807
Mr. Zhang Weizhong (張為眾) (i)	—	—	1,501	—	1,501
Ms. Liu Zhiwei (劉志偉)	—	—	549	36	585
Mr. Gu Weiping (顧衛平)	—	—	496	43	539
Mr. Liang Zuping (梁祖平) (i)	—	—	60	9	69
Mr. Wang Litong (王立彤) (ii)	—	—	490	43	533
	—	—	4,903	131	5,034
Non-executive directors:					
Mr. Zeng Guangyu (曾光宇) (iii)	—	—	—	—	—
Mr. Zhuang Ping (莊平) (iii)	—	—	—	—	—
	—	—	4,903	131	5,034

8. DIRECTORS' REMUNERATION *(continued)*

(ii) Executive directors, non-executive directors *(continued)*

(i) Mr. Zhang Weizhong was appointed as the chief executive of the Company with effect from August 2012, he then was appointed as an executive director of the Company in replacement of Mr. Liang Zuping with effect from March 2013.

(ii) Mr. Wang Litong was appointed as an executive director with effect from October 2013.

(iii) Mr. Zhuang Ping was appointed as a non-executive director in replacement of Mr. Zeng Guangyu with effect from October 2013.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included two directors during the year ended 31 December 2014 and two directors during the year ended 31 December 2013, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three highest paid employees (2013: three) who are neither a director nor a chief executive of the Company are as follows:

	2014 **RMB'000**	2013 RMB'000
Salaries, allowances and benefits in kind	**3,160**	2,621
Equity-settled share option expenses	**99**	—
Pension scheme contributions (defined contribution scheme)	**134**	76
	3,393	2,697

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	2014	2013
Nil to HK$1,000,000	**—**	1
HK$1,000,000 to HK$1,500,000	**3**	2
	3	3

9. FIVE HIGHEST PAID EMPLOYEES *(continued)*

During the year, share options were granted to three non-director highest paid employee in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of these options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director highest paid employees' remuneration disclosures.

10. INCOME TAX EXPENSE

Pursuant to The PRC Enterprise Income Tax Law Implementing Regulations (中華人民共和國企業所得稅法實施條例), most of the subsidiaries established in the PRC, engaged in the operations of wastewater treatment projects, are eligible for tax holiday of a three-year full exemption followed by a three-year half exemption commencing from their respective first year generating operating revenue (the "3+3 Tax Holiday"). At the end of the year, these subsidiaries were qualified for the 3+3 Tax Holiday or in the process of preparation and submission of the required documents to the respective tax authorities to apply for the 3+3 Tax Holiday. In addition, certain subsidiaries, engaged in the operations of wastewater 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 that the revenues from principal activities comprise of more than 70% of the total revenues in the year.

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

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

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

	2014 **RMB'000**	2013 RMB'000
Current		
– Mainland China	**21,789**	14,455
Deferred	**63,452**	34,595
Total tax charge for the year	**85,241**	49,050

10. INCOME TAX EXPENSE *(continued)*

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

	2014 RMB'000	**%**	2013 RMB'000	%
Profit before tax	**381,716**		281,679	
Income tax charge at the statutory income tax rate	**95,430**	**25.0**	70,419	25.0
Effect of the preferential income tax rate for some entities	**(12,327)**	**(3.2)**	(15,201)	(5.4)
Income not subject to tax	**(3,432)**	**(0.9)**	(2,618)	(0.9)
Expenses not deductible for tax purposes	**2,045**	**0.5**	2,083	0.7
Tax effect of tax losses not recognised	**9,828**	**2.6**	—	—
Tax effect of share of profit and loss of an associate	**(1,390)**	**(0.4)**	(1,001)	(0.4)
Tax effect of bargain purchase gain on acquisition of subsidiaries	**(4,913)**	**(1.3)**	(4,632)	(1.6)
Tax charge at the effective rate	**85,241**	**22.3**	49,050	17.4

The share of tax attributable to an associate amounting to RMB1,875,000 (2013: RMB1,314,000) is included in "Share of profit and loss of an associate" in the consolidated statement of profit or loss and other comprehensive income.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for year ended 31 December 2014 includes a loss of RMB22,346,000 (2013: a loss of RMB230,000) which had been dealt with in the financial statements of the Company (note 30(b)).

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

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

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

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

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

	2014 **RMB'000**	2013 RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	**294,788**	231,563

	2014 **Number of shares**	2013 Number of shares
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	**1,775,431,068**	1,500,000,000

The weighted average numbers of ordinary shares for the purpose of the basic and diluted earnings per share calculations for 2014 and 2013 have been retrospectively adjusted to reflect the 1,499,990,000 shares of the Company issued upon the Listing of the Company's shares on the Stock Exchange on 4 July 2014.

13. PROPERTY, PLANT AND EQUIPMENT

31 December 2014

Group	Buildings and other infrastructure RMB'000	Machinery RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2014:					
Cost	57,657	9,196	21,436	9,892	98,181
Accumulated depreciation and impairment	(7,450)	(750)	(9,678)	—	(17,878)
Net carrying amount	50,207	8,446	11,758	9,892	80,303
At 1 January 2014, net of accumulated depreciation and impairment	50,207	8,446	11,758	9,892	80,303
Additions	37	30	3,695	—	3,762
Acquisition of subsidiaries (note 31)	53	773	1,084	—	1,910
Disposals	—	(10)	(133)	—	(143)
Depreciation provided during the year	(2,633)	(591)	(3,086)	—	(6,310)
At 31 December 2014, net of accumulated depreciation and impairment	47,664	8,648	13,318	9,892	79,522
At 31 December 2014:					
Cost	57,750	9,995	26,193	9,892	103,830
Accumulated depreciation and impairment	(10,086)	(1,347)	(12,875)	—	(24,308)
Net carrying amount	47,664	8,648	13,318	9,892	79,522

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

31 December 2013

Group	Buildings and other infrastructure RMB'000	Machinery RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2013:					
Cost	55,382	9,196	19,946	2,207	86,731
Accumulated depreciation and impairment	(4,973)	(180)	(8,562)	—	(13,715)
Net carrying amount	50,409	9,016	11,384	2,207	73,016
At 1 January 2013, net of accumulated depreciation and impairment	50,409	9,016	11,384	2,207	73,016
Additions	348	2	2,319	9,623	12,292
Acquisition of subsidiaries	—	—	739	—	739
Disposals	—	—	(135)	—	(135)
Transfers	1,927	11	—	(1,938)	—
Depreciation provided during the year	(2,477)	(583)	(2,549)	—	(5,609)
At 31 December 2013, net of accumulated depreciation and impairment	50,207	8,446	11,758	9,892	80,303
At 31 December 2013:					
Cost	57,657	9,196	21,436	9,892	98,181
Accumulated depreciation and impairment	(7,450)	(750)	(9,678)	—	(17,878)
Net carrying amount	50,207	8,446	11,758	9,892	80,303

At 31 December 2014, certain of the Group's buildings with a net carrying amount of approximately RMB24,703,000 (2013: Nil) were pledged to secure certain bank loans granted to the Group (note 27).

Certain infrastructure with a net carrying amount as at 31 December 2014 of approximately RMB16,214,000 (2013: RMB16,508,000) are situated on a piece of land which is legally owned and provided for use by the non-controlling shareholder of Jilin Kangda Environmental Protection Company Limited ("Jilin Kangda"), a subsidiary of the Group. The subsidiary is contractually authorised to use the land without charge throughout its operating period.

Certain infrastructure with a net carrying amount as at 31 December 2014 of approximately RMB12,523,000 was used without charge by the Company which is legally owned and provided for use by the non-controlling shareholder of Xinzhongzhou Water, a newly-acquired subsidiary of the Group in 2014.

As the payments for the land lease cannot be separated reliably from the payments for purchase of office buildings, the entire payments are included in the costs of the relevant buildings.

14. INVESTMENT PROPERTIES

Group	2014 RMB'000	2013 RMB'000
Cost at 1 January	**5,715**	5,715
Accumulated depreciation at 1 January	**(3,349)**	(3,091)
Depreciation provided during the year	**(258)**	(258)
Net carrying amount at 31 December	**2,108**	2,366

The Group's investment properties consist of two commercial properties in Chongqing. The fair values of the investment properties as at 31 December 2014 and 31 December 2013 based on valuations performed by Crowe Horwath (HK), an independent professionally qualified valuer, were RMB12,000,000 and RMB11,900,000. Each year, the Group's chief financial officer decides to appoint which external valuer to be responsible for the external valuations of the Group's investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's chief financial officer has discussions with the valuer on the valuation assumptions and valuation results when the valuations are performed.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 32(a) to the financial statements.

At 31 December 2014, the Group's investment properties with a carrying value of RMB2,108,000 (2013: RMB1,119,000) were pledged to secure certain bank loans granted to the Group (note 27).

15. INTANGIBLE ASSETS

31 December 2014

Group	**Software**
	RMB'000
Cost at 1 January 2014, net of accumulated amortisation	845
Additions	628
Amortisation provided during the year	(152)
At 31 December 2014	1,321
At 31 December 2014	
Cost	1,760
Accumulated amortisation	(439)
Net carrying amount	1,321

At 31 December 2013

Group	**Software**
	RMB'000
Cost at 1 January 2013, net of accumulated amortisation	785
Additions	162
Amortisation provided during the year	(102)
At 31 December 2013	845
At 31 December 2013	
Cost	1,132
Accumulated amortisation	(287)
Net carrying amount	845

16. INVESTMENTS IN SUBSIDIARIES

Company	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Unlisted investments, at cost		
– Kangda Environmental Protection Investment Limited ("Kangda BVII")	**548,299**	548,299
Loan to Kangda Investment (Hong Kong) Company Limited ("Kangda Hong Kong")	**663,733**	50,273
	1,212,032	598,572

The loan to Kangda Hong Kong of RMB663,733,000 is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the Directors, this loan is considered as a quasi-equity loan as the settlement of the loan is neither planned nor likely to occur in the foreseeable future because it is in substance, a part of the Company's investment in Kangda Hong Kong.

Particulars of material subsidiaries of the Company are as follows:

Company name	**Place of incorporation/ registration and operation**	**Issued and fully paid-up capital/ registered capital**	**Percentage of equity attributable to the Company**		**Principal activities**
			Direct	**Indirect**	
Kangda Environmental Protection Investment Limited (康達環保投資有限公司)*	The BVI	US$1	100	—	Investment holding company
Kangda Investment (Hong Kong) Company Limited (康達投資(香港)有限公司)*	Hong Kong	HK$1	—	100	Investment holding company
Kangyu Investment Co., Ltd. (康渝投資有限公司)# * **	Mainland China	USD100,000,000	—	100	Investment activities in Mainland China

16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operation	Issued and fully paid-up capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd. (重慶康達環保產業(集團)有限公司)# *	Mainland China	RMB1,130,000,000	—	100	Investment in WTPs, construction of municipal infrastructure in Mainland China
Kangda Environmental Protection Water Co., Ltd. (康達環保水務有限公司)# *	Mainland China	RMB80,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Kangda Environmental Protection (Shangqiu) Water Co., Ltd. (康達環保(商丘)水務有限公司)# *	Mainland China	RMB63,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Kangda Environmental Protection (Suzhou) Water Co., Ltd. (康達環保(宿州)水務有限公司)# *	Mainland China	RMB23,000,000	—	100	Provision of WTPs operation services in Mainland China
Guangrao Kangda Environmental Protection Water Co., Ltd. (廣饒康達環保水務有限公司)# *	Mainland China	RMB8,320,000	—	100	Construction and provision of WTPs operation services in Mainland China
Harbin Kangda Environmental Protection Investment Co., Ltd. (哈爾濱康達環保投資有限公司)# *	Mainland China	RMB30,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Linying Kangda Environmental Protection Water Co., Ltd. (臨潁康達環保水務有限公司)# *	Mainland China	RMB6,000,000	—	100	Provision of WTPs operation services in Mainland China

16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operation	Issued and fully paid-up capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Weifang Kangda Environmental Protection Water Co., Ltd. (濰坊康達環保水務有限公司)# *	Mainland China	RMB94,180,000	—	100	Construction and provision of WTPs operation services in Mainland China
Kangda Environmental Protection (Gaomi) Sewage Treatment Co., Ltd. (康達環保(高密)污水處理有限公司)# *	Mainland China	RMB17,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Kangda Environmental Protection (Gaomi) Fengcheng Sewage Treatment Co., Ltd. (康達環保(高密)鳳城生活污水處理有限公司)# *	Mainland China	RMB8,500,000	—	100	Provision of WTPs operation services in Mainland China
Rushan Kangda Water Co., Ltd. (乳山康達水務有限公司)# *	Mainland China	RMB24,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Shangqiu Kangda Sewage Treatment Co., Ltd. (商丘康達污水處理有限公司)# *	Mainland China	RMB20,250,000	—	100	Construction and provision of WTPs operation services in Mainland China
Haiyang Xingcun Kangda Water Co., Ltd. (海陽行村康達水務有限公司)# *	Mainland China	RMB19,490,000	—	100	Construction and provision of WTPs operation services in Mainland China
Shanxian Kangda Environmental Protection Water Co., Ltd. (單縣康達環保水務有限公司)# *	Mainland China	RMB26,500,000	—	100	Construction and provision of WTPs operation services in Mainland China

16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operation	Issued and fully paid-up capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Kangda (Dongying) Environmental Protection Water Co., Ltd. ("Kangda Dongying") (康達(東營)環保水務有限公司)# *	Mainland China	US$13,115,000	—	100	Construction and provision of WTPs operation services in Mainland China
Beijing Chang Sheng Si Yuan Environmental Protection Technology Co., Ltd. ("Beijing Chang Sheng") (北京長盛思源環保科技有限公司)# *	Mainland China	RMB150,000,000	—	100	Investment, management of environmental projects and public infrastructure projects in Mainland China
Yucheng Dongjiao Chengjian Sewage Treatment Co., Ltd. (禹城東郊城建污水處理有限公司)# *	Mainland China	RMB10,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Liangshan Kangda Water Co., Ltd. (梁山康達水務有限公司)# *	Mainland China	RMB1,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Guodian Langxinming Puyang Water Co., Ltd. (國電朗新明濮陽水務有限公司)# *	Mainland China	RMB50,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Jiaxiang County Guohuan Sewage Treatment Co., Ltd. (嘉祥縣國環污水處理有限公司)# *	Mainland China	RMB64,000,000	—	90	Construction and provision of WTPs operation services in Mainland China
Yanggu County Guohuan Sewage Treatment Co., Ltd. (陽穀縣國環污水處理有限公司)# *	Mainland China	RMB85,000,000	—	90	Construction and provision of WTPs operation services in Mainland China
Liaocheng Municipal Guohuan Sewage Treatment Co., Ltd. (聊城市國環污水處理有限公司)# *	Mainland China	RMB64,000,000	—	90	Provision of WTPs operation services in Mainland China

16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and operation	Issued and fully paid-up capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shen County Guohuan Sewage Treatment Co., Ltd. (莘縣國環污水處理有限公司)# *	Mainland China	RMB85,000,000	—	90	Construction and provision of WTPs operation services in Mainland China
Kangda Environmental Protection (Gaomi) Water Co., Ltd. (康達環保(高密)水務有限公司)# *	Mainland China	RMB33,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Zhengzhou Xinzhongzhou Water Co., Ltd. (鄭州新中洲水務有限公司)# *	Mainland China	RMB116,000,000	—	70	Provision of WTPs operation services in Mainland China
Chongqing Fulunde Technology Co. Ltd. (重慶弗侖德科技有限公司)# *	Mainland China	RMB2,000,000	—	100	Computer software development and sale in Mainland China

\# The names of these companies referred to in this report represent management's best effort at translating the Chinese names of the companies, as no English names have been registered.

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

** Kangyu Investment Co., Ltd. is registered as a wholly-foreign-owned enterprise under PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

During the year, the Group acquired Guodian Langxinming Puyang Water Co., Ltd (國電朗新明濮陽水務有限公司) ("Puyang Water"), Yanggu County Guohuan Sewage Treatment Co., Ltd. (陽穀縣國環污水處理有限公司) ("Yanggu County Water"), Shen County Guohuan Sewage Treatment Co., Ltd. (莘縣國環污水處理有限公司) ("Shen County Water"), Liaocheng Municipal Guohuan Sewage Treatment Co., Ltd. (聊城市國環污水處理有限公司) ("Liaocheng Water"), Jiaxiang County Guohuan Sewage Treatment Co., Ltd. (嘉祥縣國環污水處理有限公司) ("Jiaxiang County Water"), and Xinzhongzhou Water from the third parties. Further details of this acquisition are included in note 31 to the financial statements.

At 31 December 2014, the Group's subsidiaries have no material non-controlling interests.

17. INVESTMENT IN AN ASSOCIATE

Group

	31 December 2014 RMB'000	31 December 2013 RMB'000
Share of net assets	**48,754**	50,393

The Group has a 20% equity interest in Nanchang Qingshanhu Project Co., Ltd., which engages in the operation and management of WTPs in Nanchang city of Mainland China.

Particulars of the associate is as follows:

Company name	**Place of incorporation/ registration and operation**	**Issued and fully paid-up capital**	**Percentage of equity interest attributable to the Group**	**Principal activities**
Nanchang Qingshanhu Project Co., Ltd. （南昌青山湖污水處理有限公司）#	Mainland China	RMB99,326,000	20	Construction, operation and management of WTPs in Mainland China

The English name of the company registered in the Mainland China represents the best efforts of the management of the Company in directly translating the Chinese name of the company as no English name has been registered.

The percentages of voting power held and profit sharing are the same as the percentage of equity interests attributable to the Group.

The Group's shareholding in the associate comprises equity shares held by a wholly-owned subsidiary of the Company.

17. INVESTMENT IN AN ASSOCIATE *(continued)*

Nanchang Qingshanhu Project Co., Ltd. is a private entity that is not listed on any public exchange. The following table illustrates the summarised financial statements in respect of Nanchang Qingshanhu Project Co., Ltd. reconciled to its carrying amount in the consolidated financial statements:

Group

	31 December 2014 RMB'000	31 December 2013 RMB'000
Current assets	**140,515**	148,437
Non-current assets	**187,095**	207,409
Current liabilities	**(31,477)**	(28,307)
Non-current liabilities	**(52,362)**	(75,575)
Net assets	**243,771**	251,964
Reconciliation to the Group's investment in the associate:		
Proportion of the Group's ownership	**20%**	20%
Carrying amount of the interest in an associate	**48,754**	50,393

	Year ended 31 December 2014 RMB'000	Eight-month period from acquisition date to 31 December 2013 RMB'000
Revenue	**80,530**	54,294
Profit for the year	**27,806**	20,025
Other comprehensive income	**—**	—
Total comprehensive income	**27,806**	20,025
Dividends received	**7,200**	—

18. FINANCIAL RECEIVABLES

	31 December 2014 RMB'000	31 December 2013 RMB'000
Receivables for service concession arrangements	**4,875,532**	3,179,130
Receivables for BT arrangements	**244,638**	106,542
Provision for impairment	**—**	—
Net financial receivables	**5,120,170**	3,285,672
Portion classified as current	**1,072,687**	714,398
Non-current portion	**4,047,483**	2,571,274

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

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

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

At 31 December 2014, the Group's financial receivables with a carrying value of RMB3,060,477,000 (2013: RMB2,051,175,000) were pledged to secure certain bank loans granted to the Group (note 27).

19. DEFERRED TAX

The deferred tax assets and liabilities recognised by the Group, and the movements thereon, during the year are as follows:

31 December 2014

Deferred tax liabilities	Service concession arrangements RMB'000	Transaction costs for bank borrowings RMB'000	Total RMB'000
At 1 January 2014	(168,512)	(2,913)	(171,425)
Deferred tax liabilities recognised from acquisition of subsidiaries (note 31)	(7,471)	—	(7,471)
Deferred tax charged to profit or loss during the year	(75,777)	(2,465)	(78,242)
At 31 December 2014	(251,760)	(5,378)	(257,138)

Deferred tax assets	BT projects RMB'000	Provision for impairment of trade receivables RMB'000	Losses available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2014	8,141	1,278	6,030	15,449
Deferred tax credited/(charged) to profit or loss during the year	(1,405)	(1,278)	17,473	14,790
At 31 December 2014	6,736	—	23,503	30,239

19. DEFERRED TAX *(continued)*

31 December 2013

Deferred tax liabilities	Service concession arrangements RMB'000	Transaction costs for bank borrowings RMB'000	Total RMB'000
At 1 January 2013	(116,793)	(2,069)	(118,862)
Deferred tax liabilities recognised from acquisition of subsidiaries	(9,132)	—	(9,132)
Deferred tax charged to profit or loss during the year	(42,587)	(844)	(43,431)
At 31 December 2013	(168,512)	(2,913)	(171,425)

Deferred tax assets	BT projects RMB'000	Provision for impairment of trade receivables RMB'000	Losses available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2013	3,738	959	—	4,697
Deferred tax assets recognised from acquisition of subsidiaries	1,916	—	—	1,916
Deferred tax credited to profit or loss during the year	2,487	319	6,030	8,836
At 31 December 2013	8,141	1,278	6,030	15,449

The Group also has tax losses arising in Mainland China of RMB147,350,000 (2013: RMB40,198,000) that will expire in four to five years for offsetting against future taxable profits.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2014, no deferred tax liability has been recognised for withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

20. INVENTORIES

	Group	
	31 December 2014 RMB'000	31 December 2013 RMB'000
Raw materials	**5,248**	3,108

No impairments in the respect of inventories were recorded at the end of the year.

21. CONSTRUCTION CONTRACTS

	Group	
	31 December 2014 RMB'000	31 December 2013 RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	**759,735**	1,039,849
Less: Progress billings	**(339,065)**	(488,524)
Gross amount due from contract customers for contract work	**420,670**	551,325

22. TRADE AND BILLS RECEIVABLES

The Group's major customers are the PRC government authorities or agencies. The Group not only provides construction service and operation service pursuant to its service concession arrangements, but also provides construction service under other construction service projects and BT arrangements.

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

	Group	
	31 December 2014 RMB'000	31 December 2013 RMB'000
Trade receivables		
Receivables for service concession arrangements	**197,971**	90,295
Receivables for BT arrangements	**298,695**	76,759
Receivables for other construction service projects and other water treatment	**3,000**	6,474
Provision for impairment	**—**	(5,114)
	499,666	168,414
Bills receivable	**3,600**	60,948
	503,266	229,362

22. 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 the year is as follows:

	31 December 2014 RMB'000	31 December 2013 RMB'000
Within 3 months	**201,138**	114,900
4 to 6 months	**173,416**	31,837
7 to 12 months	**38,581**	8,094
Over 12 months	**86,531**	13,583
	499,666	168,414

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

	31 December 2014 RMB'000	31 December 2013 RMB'000
Neither past due nor impaired	**367,162**	143,124
Past due but not impaired:		
Less than 3 months past due	**56,498**	9,652
4 to 6 months past due	**34,427**	3,463
Over 6 months past due	**41,579**	7,061
	499,666	163,300

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

Receivables that were past due but not impaired relate to government authorities or agencies that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

22. TRADE AND BILLS RECEIVABLES *(continued)*

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

	31 December 2014 RMB'000	31 December 2013 RMB'000
At beginning of the year	**5,114**	3,836
Impairment losses recognised	**—**	1,278
Impairment losses reversed	**(5,114)**	—
At end of the year	**—**	5,114

Included in the above provision for impairment of trade receivables is provision for individually impaired trade receivables of Nil as at 31 December 2014 (2013: RMB10,228,000). The management of the Group is of the view that the trade receivables will be collected during the year considering the continuous cooperation with the same customer and the written declaration received from the same customer this year. Therefore, the provision for impairment of trade receivable was reversed during the year ended 31 December 2014.

During the year ended 31 December 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") endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of their suppliers in order to settle the trade payables to such suppliers with an aggregate carrying amount of RMB49,640,000. The Derecognised Bills had a maturity of six months. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the banks default (the "Continuing Involvement"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2014, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year ended 31 December 2014 or cumulatively. The endorsement has been made evenly throughout the year ended 31 December 2014.

At 31 December 2014, the Group's trade receivables with a carrying value of RMB326,590,000 (2013: RMB58,712,000) were pledged to secure certain bank loans granted to the Group (note 27).

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	31 December 2014 RMB'000	31 December 2013 RMB'000
Deposits	**78,299**	11,541
Prepayments	**19,905**	21,655
Staff advances	**5,924**	3,221
Other receivables	**36,161**	43,681
Less: Provision for impairment	**—**	—
	140,289	80,098
Current portion	**140,289**	80,098

Company

	31 December 2014 RMB'000	31 December 2013 RMB'000
Amounts due from subsidiaries	**559,554**	2,611
Less: Provision for impairment	**—**	—
	559,554	2,611
Current portion	**559,554**	2,611

No impairment losses in respect of prepayments, deposits and other receivables were recorded at the end of the year as the Group is satisfied with the recoverability of the amounts.

The financial assets included in prepayments, deposits and other receivables were neither past due nor impaired and relate to balances for which there was no recent history of default.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group	31 December 2014 RMB'000	31 December 2013 RMB'000
Cash and bank balances	1,259,223	414,886
Less: Pledged deposits	(511,940)	(139,324)
Cash and cash equivalents	747,283	275,562
Cash and bank balances denominated in:		
– RMB	701,163	261,464
– United States dollars	19,958	242
– Hong Kong dollars	26,162	13,856
Cash and cash equivalents	747,283	275,562

Company	31 December 2014 RMB'000	31 December 2013 RMB'000
Cash and cash equivalents	19,314	241
Cash and bank balances denominated in:		
– RMB	37	—
– Hong Kong dollars	19,277	241
	19,314	241

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

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

As 31 December 2014, the Group's pledged deposits with a carrying value of RMB437,920,000 (2013: Nill) were pledged to secure certain bank loans granted to the Group (note 27).

25. TRADE AND BILLS PAYABLES

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

For retention money payable, included in trade payable, 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.

Group	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Bills payable (note (a))	**153,417**	178,883
TOT payables (note (b))	**16,985**	37,044
Trade payables	**557,965**	327,965
	728,367	543,892
Less: non-current portion	**2,974**	6,440
Current portion	**725,393**	537,452

Notes:

(a) As at 31 December 2014, the Group's bills payable are secured by the pledged deposits amounting to RMB72,720,000 (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 the year.

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

Group	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Within 3 months	**256,398**	83,160
4 months to 6 months	**207,140**	231,451
7 months to 12 months	**140,660**	161,026
Over 12 months	**124,169**	68,255
	728,367	543,892

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

26. OTHER PAYABLES AND ACCRUALS

Group	31 December 2014 RMB'000	31 December 2013 RMB'000
Payables for the acquisition of four subsidiaries from Shandong Guohuan	46,053	—
Payables for the acquisition of Xinzhongzhou Water	21,000	—
Amounts due to non-controlling shareholders*	19,237	10,900
Other taxes payables	17,855	13,714
Interest payables	6,817	5,246
Salary and welfare payables	3,242	6,621
Other payables	19,392	16,975
	133,596	53,456

* The amounts mainly represent borrowings provided by the non-controlling shareholders of Jilin Kangda and Hebi Kangda to finance the construction of property, plant and equipment of Jilin Kangda and Hebi Kangda. The borrowings are unsecured, interest-free and have no fixed terms of repayment.

The salary and welfare payables are non-interest-bearing and are payable on demand. Other payables are non-interest-bearing and have no fixed terms of repayment.

Company	31 December 2014 RMB'000	31 December 2013 RMB'000
Other payables due to subsidiaries	4,689	611

27. INTEREST-BEARING BANK BORROWINGS

Group	2014			2013		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
– unsecured	**6.30-7.00**	**2015**	**200,000**	6.30	2014	50,000
Bank loans						
– secured	**5.04-6.72**	**2015**	**782,000**	6.30-7.80	2014	265,000
Current portion of long term bank loans						
– unsecured	**6.46**	**2015**	**90,000**	6.46-6.88	2014	13,800
Current portion of long term bank loans						
– secured	**6.40-8.52**	**2015**	**673,781**	6.40-7.53	2014	456,541
			1,745,781			785,341
Non-current						
Long term bank loans						
– unsecured			**—**	6.46-6.88	2015-2022	158,452
Long term bank loans						
– secured	**6.40-8.52**	**2016-2024**	**1,811,023**	6.40-7.53	2015-2023	1,643,596
			1,811,023			1,802,048
			3,556,804			2,587,389

All the interest-bearing bank borrowings denominated in RMB.

27. INTEREST-BEARING BANK LOANS *(continued)*

The maturity profile of the interest-bearing bank borrowings as at the end of the year is as follows:

	Group	
	31 December 2014 RMB'000	31 December 2013 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**1,745,781**	785,341
In the second year	**405,165**	710,728
In the third to fifth years, inclusive	**772,082**	643,604
Beyond five years	**633,776**	447,716
	3,556,804	2,587,389

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

	31 December 2014 RMB'000	31 December 2013 RMB'000
Property, plant and equipment (note 13)	**24,703**	—
Investment properties (note 14)	**2,108**	1,119
Financial receivables (note 18)	**3,060,477**	2,051,175
Trade and bills receivables (note 22)	**326,590**	58,712
Pledged deposits (note 24)	**437,920**	—

The Group's bank borrowings of approximately RMB108,700,000 (2013: RMB117,700,000) were secured by the investment in the subsidiary, Beijing Chang Sheng.

The Group's bank borrowings of RMB75,000,000 (2013: RMB1,262,125,000) were guaranteed by Mr. Zhao Juanxian and Mr. Zhao Sizhen, the son of Mr. Zhao Juanxian, who are the controlling shareholders, and by Chongqing Kangte Environmental Protection Industry Holdings Co., Ltd., an external affiliate party of the Group (note 36).

28. SHARE CAPITAL

Shares

	2014 RMB'000	2013 RMB'000
Authorised:		
5,000,000,000 (2013: 38,000,000) ordinary shares of HK$0.01each	**39,766**	312
Issued and fully paid:		
2,067,515,000 (2013: 10,000) ordinary shares	**16,444**	—

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Issued capital RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2013, 31 December 2013 and 1 January 2014	10,000	—	601,378	601,378
Capitalisation upon the Listing (a)	1,499,990,000	11,930	(11,930)	—
Issue of shares (b)	567,515,000	4,514	1,259,245	1,263,759
Share issue expenses	—	—	(57,206)	(57,206)
At 31 December 2014	**2,067,515,000**	**16,444**	**1,791,487**	**1,807,931**

(a) Pursuant to the written resolutions of the shareholder of the Company, Kangda Holdings, passed on 14 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.

(b) The Company's shares were listed on the Stock Exchange on 4 July 2014 and in connection with the Company's Global Offering and the completion of the over-allotment, 567,515,000 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$1,589,042,000.

29. SHARE OPTION SCHEME

On 19 December 2014, the Company granted a total of 84,500,000 share options to subscribe for a total of 84,500,000 ordinary shares in the share capital of the Company under the share option scheme ("Share Option Scheme") adopted by the Company on 14 June 2014.

The purpose of the Share Option Scheme is to give the key staff an opportunity to have a personal state in the Company and help motivate them to optimise their future performance and efficiency to the Group and to attract and retain or otherwise maintain on-going relationships with such eligible participants who are significant to and whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of management staff, to enable the Group to attract and retain individuals with experience and ability.

All share options granted to the Share Option Scheme participants have a vesting period of three years as follows: 30% on 19 December 2015, 30% on 19 December 2016 and 40% on 19 December 2017. Each Share Option Scheme award granted pursuant to the Share Option Scheme has the same terms and conditions. The grant and vesting of the Share Option Scheme awards pursuant to the share option scheme are in compliance with Rule 10.08 of the Listing Rules.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

The following share options were outstanding under the Share Option Scheme during the year:

	Weighted average exercise price	**Number of options**
	HK$ per share	'000
At 1 January 2014	—	—
Granted during the year	3.386	84,500
At 31 December 2014	3.386	84,500

29. SHARE OPTION SCHEME *(continued)*

The fair value of share options granted during the year was HK$70,650,000 (HK$0.84 each) (2013: Nil), of which the Group recognised a share option expense of RMB1,191,000 (2013: Nil) during the year ended 31 December 2014.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2014
Dividend yield (%)	—
Expected volatility (%)	41.88~44.80
Historical volatility (%)	41.88~44.80
Risk-free interest rate (%)	0.508~1.186
Expected life of options (year)	2~4
Annual Employer Retaining Rate (%)	95

The expected life of the options is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The historical volatility is set by the median volatility of the comparable companies in the corresponding period.

No other feature of the options granted was incorporated into the measurement of fair value.

During this year, there was no share options exercised. At the end of the year, the Company had 84,500,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 84,500,000 additional ordinary shares of the Company and additional share capital of HK$286,117,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 84,500,000 share options outstanding under the Scheme, which represented approximately 4.09% of the Company's shares in issue as at that date.

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 54 of the financial statements.

(b) Company

	Share premium RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2013	601,378	—	(335)	601,043
Total comprehensive loss for the year	—	—	(230)	(230)
At 31 December 2013 and 1 January 2014	601,378	—	(565)	600,813
Total comprehensive loss for the year	—	—	(22,346)	(22,346)
Capitalisation upon the Listing	(11,930)	—	—	(11,930)
Issue of shares	1,259,245	—	—	1,259,245
Share issue expenses	(57,206)	—	—	(57,206)
Equity-settled share option arrangements	—	1,191	—	1,191
At 31 December 2014	**1,791,487**	**1,191**	**(22,911)**	**1,769,767**

31. BUSINESS COMBINATION

On 31 July 2014, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, acquired a 100% interest in Puyang Water, which is a wholly-owned subsidiary of Dalian Langxinming Environmental Engineering Co., Ltd. (大連朗新明環境工程有限公司) ("Dalian Langxinming"), at a total consideration of RMB56,880,000.

On 15 October 2014, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, acquired a 90% interest held by Shandong Guohuan in each of the following companies: Yanggu County Water, Shen County Water, Liaocheng Water and Jiaxiang County Water at an aggregate consideration of RMB270,900,000 ("Four Subsidiaries from Shandong Guohuan").

31. BUSINESS COMBINATION *(continued)*

On 13 November 2014, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, acquired a 70% interest in Xinzhongzhou Water held by Xinzheng Municipal Xinyuan Wastewater Treatment Co., Ltd. (新鄭市新源污水處理有限責任公司), at a total consideration of RMB84,000,000.

The above acquisitions were made as part of the Group's strategy to expend its market geographic coverage and increase its market share in wastewater treatment industry.

The fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year as at their respective dates of acquisition were as follows:

Group

	Notes	**Puyang Water** RMB'000	**Four Subsidiaries from Shandong Guohuan** RMB'000	**Xinzhongzhou Water** RMB'000
Property, plant and equipment	13	226	909	775
Inventories		72	2,090	—
Financial receivables		135,857	312,588	120,166
Trade and bills receivables		19,497	8,109	—
Prepayments, deposits and other receivables		14,134	3,230	—
Cash and cash equivalents		295	24	—
Trade and bills payables		(1,251)	(398)	—
Other payables and accruals		(678)	(7,497)	—
Interest-bearing bank borrowings		(101,477)	—	—
Deferred tax liabilities	19	(3,258)	(4,213)	—
Total identifiable net assets at fair value		63,417	314,842	120,941
Non-controlling interests		—	(31,484)	(36,282)
Gains on bargain purchase recognised in other income and gains in profit or loss		(6,537)	(12,458)	(659)
Purchase consideration at fair value		56,880	270,900	84,000

31. BUSINESS COMBINATION *(continued)*

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

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

The gain on bargain purchase represents the difference between the consideration paid and the total identifiable net assets at fair value which is primarily determined by fair values of financial receivables and trade receivables in connection with service concession arrangements and fair value of liabilities.

	Puyang Water	**Four Subsidiaries from Shandong Guohuan**	**Xinzhongzhou Water**
	RMB'000	RMB'000	RMB'000
An analysis of the cash flows in respect of the acquisitions is as follows:			
Cash consideration	(37,704)	(224,847)	(63,000)
Cash and bank balances acquired	295	24	—
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(37,409)	(224,823)	(63,000)
Transaction costs of the acquisition included in cash flows from operating activities	—	120	45

Since the acquisitions, Puyang Water, Four Subsidiaries from Shandong Guohuan and Xinzhongzhou Water contributed appropriately RMB11,208,000, RMB13,154,000, RMB3,559,000 respectively to the Group's revenue and RMB4,353,000, RMB6,120,000, RMB162,000 respectively to the Group's profit for the year ended 31 December 2014.

Had the acquisitions taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB1,980,097,000 and RMB317,548,000, respectively.

32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with terms ranging from one 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 31 December 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	31 December 2014 RMB'000	31 December 2013 RMB'000
Within one year	**400**	616
In the second to fifth years, inclusive	**1,153**	1,265
After five years	**288**	576
	1,841	2,457

(b) As lessee

The Group leases certain office properties under operating lease arrangements with the leases negotiated for terms ranging from 1 to 2 years (2013: 3 years).

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

	31 December 2014 RMB'000	31 December 2013 RMB'000
Within one year	**4,632**	3,010
In the second to fifth years, inclusive	**6,033**	5,383
	10,665	8,393

33. CONTINGENT LIABILITIES

At the end of the year, the Group did not have any significant contingent liabilities.

34. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 27 to the financial statements.

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34(b) above, the Group had the following commitments:

(a) Capital commitments

The Group had the following capital commitments at the end of the year:

	31 December 2014 RMB'000	31 December 2013 RMB'000
Contracted, but not provided for:		
Acquisitions of subsidiaries	**199,800**	—

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

Group	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Contracted, but not provided for	**964,819**	1,167,467
Authorised, but not contracted for	**1,510,685**	345,120

36. RELATED PARTY TRANSACTIONS

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

	2014 RMB'000	2013 RMB'000
Certain expenses of the Group paid on behalf by a non-controlling shareholder of Jilin Kangda	**1,000**	892
Certain expenses of the Group paid on behalf by a non-controlling shareholder of Hebi Kangda	**2,400**	—
Certain expenses of the Group paid on behalf by a non-controlling shareholder of Four Subsidiaries from Shandong Guohuan	**937**	—

As disclosed in note 13, 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, and such use also constitutes related party transaction during the year. Meanwhile, the Group is also authorised to use certain infrastructures without charge which are legally owned and provided by the non-controlling shareholder of Xinzhongzhou Water, a newly acquired subsidiary of the Group in 2014.

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

The Group's bank borrowings of RMB75,000,000 (2013: RMB1,262,125,000) were guaranteed by Mr. Zhao Juanxian and Mr. Zhao Sizhen, the son of Mr. Zhao Juanxian, who are the controlling shareholders, and by Chongqing Kangte Environmental Protection Industry Holdings Co., Ltd., an external affiliate party of the Group (note 27).

36. RELATED PARTY TRANSACTIONS *(continued)*

(b) Outstanding balances with related parties

	31 December 2014 RMB'000	31 December 2013 RMB'000
Amounts due to non-controlling shareholders of		
Jilin Kangda	**11,000**	10,000
Hebi Kangda	**3,300**	900
Four Subsidiaries from Shandong Guohuan	**46,990**	—
Xinzhongzhou Water	**25,000**	—

Details of the outstanding balances with related parties are set out in note 26.

(c) Compensation of key management personnel of the Group

	2014 RMB'000	2013 RMB'000
Short term employee benefits	**1,449**	1,238
Equity-settled share option expenses	**85**	
Post-employment benefits	**85**	69
Total compensation paid to key management personnel	**1,619**	1,307

Further details of directors' emoluments are included in note 8 to the financial statements.

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of the categories of financial instruments as at the end of the year are as follows:

Group	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Financial assets		
Loans and receivables:		
Financial receivables	**5,120,170**	3,285,672
Trade and bills receivables	**503,266**	229,362
Financial assets included in prepayments, deposits and other receivables	**114,460**	55,222
Pledged deposits	**511,940**	139,324
Cash and cash equivalents	**747,283**	275,562
	6,997,119	3,985,142

Group	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Financial liabilities		
Financial liabilities at amortised cost:		
Trade and bills payables	**728,367**	543,892
Financial liabilities included in other payables and accruals	**127,154**	53,456
Interest-bearing bank borrowings	**3,556,804**	2,587,389
	4,412,325	3,184,737

Company	**31 December 2014 RMB'000**	31 December 2013 RMB'000
Financial assets		
Loans and receivables:		
Financial assets included in prepayments, deposits and other receivables	**578,348**	2,611

37. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company	31 December 2014 RMB'000	31 December 2013 RMB'000
Financial liabilities		
Financial liabilities at amortised cost:		
Financial liabilities included in other payables and accruals	23,483	611

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

Group	31 December 2014 Carrying amounts RMB'000	31 December 2014 Fair values RMB'000
Financial assets		
Financial receivables, non-current portion	4,047,483	4,129,354
	4,047,483	4,129,354
Financial liabilities		
Trade and bills payables, non-current portion	2,974	2,802
Interest-bearing bank borrowings, non-current portion	1,811,023	1,799,636
	1,813,997	1,802,438

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

Group	31 December 2013 Carrying amounts RMB'000	31 December 2013 Fair values RMB'000
Financial assets		
Financial receivables, non-current portion	2,571,274	2,576,924
	2,571,274	2,576,924
Financial liabilities		
Trade and bills payables, non-current portion	6,440	6,067
Interest-bearing bank borrowings, non-current portion	1,802,048	1,516,659
	1,808,488	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 Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value disclosure of financial instruments. The finance manager reports directly to the chief financial officer. At the end of the year, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

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

The fair values of the non-current portion of financial receivables, prepayments, deposits and other receivables, trade and bills payables 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, interest-bearing bank borrowings as at the end of the year were assessed to be insignificant.

All financial assets and liabilities of which the fair values were disclosed in the financial statements are categorised within the fair value hierarchy of level 3 as at the end of the year, except for interest-bearing bank borrowings which were categorised within the fair value hierarchy of level 2.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as financial receivables, trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. Generally, the senior management of the Company meets regularly to analyse and formulate measures to manage the Group's exposure to these risks. In addition, the board of directors of the Company holds meetings regularly to analyse and approve the proposals made by the senior management of the Company. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors of the Company reviews and agrees policies for managing these risks and they are summarised below.

(a) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group regularly reviews and monitors the mix of fixed and floating interest rate borrowings in order to manage its interest rate risk. The Group's interest-bearing bank borrowings, pledged deposits and cash and cash equivalents are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

If there would be a general increase/decrease in the market interest rates by one percentage point, with all other variables held constant, the Group's consolidated pre-tax profit would have decreased/increased by approximately RMB33,805,532 and RMB23,311,000 for the years ended 31 December 2014 and 2013 respectively, and there would be no impact on other components of the consolidated equity, except for retained profits, of the Group. The sensitivity analysis above has been determined assuming that the change in market interest rates had occurred at the end of the years and had applied the exposure to interest rate risk to those financial instruments in existence at those dates.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Credit risk

The carrying amounts of cash and cash equivalents, pledged deposits, trade and bills receivables, financial receivables and financial assets included in prepayments, deposits and other receivables represent the Group's maximum exposure to credit risk in relation to these financial assets. Substantially all of the Group's cash and cash equivalents and pledged deposits are held in major financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality. The Group has policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the credit exposure to a single financial institution to an acceptable level.

The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

As the Group's major customers are either PRC government authorities or agencies at the provincial and local levels or other state-owned enterprises, the Group believes that they are reliable and of high credit quality and hence, there is no significant credit risk with these customers. The senior management of the Company keeps reviewing and assessing the creditworthiness of the Group's existing customers on an ongoing basis.

(c) Liquidity risk

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(c) Liquidity risk *(continued)*

The maturity profile of the Group's financial liabilities at the end of the year, based on the contractual undiscounted payments, is as follows:

	31 December 2014				
Group	**Within 1 year RMB'000**	**1 to 2 years RMB'000**	**2 to 5 years RMB'000**	**More than 5 years RMB'000**	**Total RMB'000**
Interest-bearing bank borrowings	**1,916,004**	**524,815**	**990,717**	**727,492**	**4,159,028**
Trade bills and payables	**627,364**	**66,373**	**11,592**	**27,047**	**732,376**
Financial liabilities included in other payables and accruals	**124,448**	**—**	**—**	**—**	**124,448**
	2,667,816	**591,188**	**1,002,309**	**754,539**	**5,015,852**

	31 December 2013				
Group	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	965,543	836,605	819,901	530,506	3,152,555
Trade bills and payables	475,637	24,335	13,176	30,744	543,892
Financial liabilities included in other payables and accruals	53,456	—	—	—	53,456
	1,494,636	860,940	833,077	561,250	3,749,903

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(c) Liquidity risk *(continued)*

Company	**31 December 2014** **Within 1 year** **RMB'000**	**1 to 2 years** **RMB'000**	**2 to 5 years** **RMB'000**	**More than 5 years** **RMB'000**	**Total** **RMB'000**
Financial liabilities included in other payables and accruals	**23,483**	**—**	**—**	**—**	**23,483**
	23,483	**—**	**—**	**—**	**23,483**

Company	31 December 2013 Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
Financial liabilities included in other payables and accruals	611	—	—	—	611
	611	—	—	—	611

(d) Capital management

The Group's primary objectives for managing capital are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratio in order to support its business and maximise shareholders' value.

The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts. No change was made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes trade and bills payables, other payables and accruals and interest-bearing bank borrowings, less cash and cash equivalents and pledged deposits. Capital includes the equity attributable to owners of the parent and non-controlling interests as stated in the consolidated statements of financial position.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(d) Capital management *(continued)*

The Group's strategy is to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary. The gearing ratios at the end of the years were as follows:

	31 December 2014 RMB'000	31 December 2013 RMB'000
Trade and bills payables (note 25)	**728,367**	543,892
Other payables and accruals (note 26)	**133,596**	53,456
Interest-bearing bank borrowings (note 27)	**3,556,804**	2,587,389
Less: Cash and cash equivalents (note 24)	**(747,283)**	(275,562)
Less: Pledged deposits (note 24)	**(511,940)**	(139,324)
Net debt	**3,159,544**	2,769,851
Total equity	**2,924,715**	1,352,730
Capital and net debt	**6,084,259**	4,122,581
Gearing ratio	**52%**	67%

40. EVENTS AFTER THE REPORTING PERIOD

On 30 December 2014, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, entered into an agreement with Henan Xindi Environmental Protection Investment Co., Ltd. (河南鑫迪環保投資有限公司) ("Henan Xindi"), for the acquisition of a 80% equity interest in Pingdingshan City Bay Water Treatment Co., Ltd. (平頂山海灣水務有限公司) ("Pingdingshan City Bay"), which is a wholly-owned subsidiary of Henan Xindi, at a consideration of RMB229.8 million, of which RMB30.0 million has been paid in 2014. Since the acquisition was not yet completed on the date of approval of these financial statements, it is not practicable to disclose further details about the acquisition.

On 10 February 2015, the Company entered into a cooperation agreement (the "Cooperation Agreement") with the Graduate School of Shenzhen, Tsinghua University (清華大學深圳研究生院) (the "Tsinghua Graduate School") in relation to the proposed joint-establishment of Tsinghua-Kangda Environment Nano Engineering Technology Institute (清華-康達環境納米工程技術研究院) (the "Institute"), which will be an unincorporated entity under administration of the Tsinghua Graduate School. As agreed upon the Cooperation Agreement, the Company will invest no less than RMB50.0 million in research and development of wastewater treatment technologies and products during the cooperation periods.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2015.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and total equity of the Group for the last four financial years, as extracted from the Prospectus and the annual report of the Company for the year ended 31 December 2014, is set out below:

RESULTS

	Year ended 31 December			
	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,812,781**	1,339,679	999,315	734,886
Profit before tax	**381,716**	281,679	233,069	185,521
Income tax expense	**85,241**	49,050	35,696	28,631
Profit for the year	**296,475**	232,629	197,373	156,890
ATTRIBUTABLE TO:				
Owners of the parent	**294,788**	231,563	196,540	156,890
Non-controlling interests	**1,687**	1,066	833	—
	296,475	232,629	197,373	156,890

ASSETS, LIABILITIES AND TOTAL EQUITY

	As at 31 December			
	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**7,610,810**	4,713,807	3,876,800	2,869,617
Total liabilities	**4,686,095**	3,361,077	2,760,699	2,181,030
NET ASSETS	**2,924,715**	1,352,730	1,116,101	688,587
Equity attributable to owners of the parent	**2,842,913**	1,340,381	1,108,818	686,137
Non-controlling interests	**81,802**	12,349	7,283	2,450
TOTAL EQUITY	**2,924,715**	1,352,730	1,116,101	688,587