



**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



**2019**  
INTERIM REPORT



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Zhao Juanxian (alias, Zhao Junxian) (Co-Chairman)  
(re-designated as a co-chairman on 27 June 2019)

Mr. Zhang Weizhong (Chief executive officer)  
(resigned as an executive director on 4 April 2019 and  
resigned as the chief executive officer on 9 April 2019)

Ms. Liu Zhiwei (Vice president)  
(resigned on 4 April 2019)

Mr. Gu Weiping (Vice president)  
(resigned on 4 April 2019)

Mr. Wang Litong (Vice president)  
(resigned on 4 April 2019)

Mr. Wang Tianci (Vice president)  
(resigned on 4 April 2019)

Mr. Li Zhong (Co-Chairman)  
(appointed as an executive director on 4 April 2019,  
appointed as the honorary chairman on 9 April 2019,  
and appointed as a co-chairman and ceased to be  
the honorary chairman on 27 June 2019)

Ms. Liu Yujie (appointed on 4 April 2019)

Mr. Duan Jerry Linnan (Chief executive officer)  
(appointed as an executive director on 4 April 2019 and  
appointed as the chief executive officer on 9 April 2019)

### Independent Non-executive Directors

Mr. Tsui Yiu Wa Alec (resigned on 4 April 2019)

Mr. Chau Kam Wing Donald (appointed on 4 April 2019)

Mr. Chang Qing

Mr. Peng Yongzhen

## AUDIT COMMITTEE

Mr. Tsui Yiu Wa Alec (Chairman)  
(resigned on 4 April 2019)

Mr. Chau Kam Wing Donald (Chairman)  
(appointed on 4 April 2019)

Mr. Chang Qing

Mr. Peng Yongzhen

## REMUNERATION COMMITTEE

Mr. Chang Qing (Chairman) (resigned on 4 April 2019)

Mr. Peng Yongzhen (Chairman)  
(appointed as chairman on 4 April 2019)

Mr. Gu Weiping (resigned on 4 April 2019)

Mr. Zhao Juanxian (alias, Zhao Junxian)  
(appointed on 4 April 2019)

Mr. Chau Kam Wing Donald (appointed on 4 April 2019)

## NOMINATION COMMITTEE

Mr. Zhao Juanxian (alias, Zhao Junxian) (Chairman)  
(resigned as chairman on 4 April 2019)

Mr. Chau Kam Wing Donald (Chairman)  
(appointed on 4 April 2019)

Mr. Zhang Weizhong (resigned on 4 April 2019)

Mr. Tsui Yiu Wa Alec (resigned on 4 April 2019)

Mr. Li Zhong (appointed on 4 April 2019)

Mr. Peng Yongzhen

Mr. Chang Qing

## COMPANY SECRETARY

Mr. Cheng Wing Hong

## AUTHORISED REPRESENTATIVES

Mr. Zhang Weizhong (resigned on 4 April 2019)

Ms. Liu Zhiwei (resigned on 4 April 2019)

Mr. Zhao Juanxian (alias, Zhao Junxian)  
(appointed on 4 April 2019)

Mr. Li Zhong (appointed on 4 April 2019)

## 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

# CORPORATE INFORMATION

## 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

SMP Partners (Cayman) Limited  
3th Floor  
Royal Bank House  
24 Shedden Road  
George Town  
Grand Cayman KY1-1110  
Cayman Islands

## 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:*

Luk & Partners  
in Association with Morgan, Lewis & Bockius  
Suites 1902–09  
19th Floor, Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

*As to PRC law:*

Zhong Hao Law Firm  
22/F Metropolitan Tower  
68 Zourong Road  
Yuzhong District  
Chongqing  
The PRC

## PRINCIPAL BANKS

Industrial and Commercial Bank of China  
Chongqing Rural Commercial Bank  
Bank of China  
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>

# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY OVERVIEW

Emphasis from the central government of the PRC on environmental protection has been increasing in recent years, with many supportive policies released. The effect of the national industrial policies as well as the scale of environmental protection investment is enormous. The imposition and payment of corporate pollution taxes have become more stringent and systematic after the official implementation of the Environmental Protection Tax Law of the PRC in 2018 and the introduction of a series of measures and policies regarding the imposition and payment of corporate pollution taxes. In July 2018, the PRC issued a string of documents including the Action Plan for Prevention and Control of Water Pollution (《水污染防治行動計劃》) and the Opinion on Innovating and Improving the Pricing System for the Promotion of Green Development (《關於創新和完善促進綠色發展價格機制的意見》), in which further amendments to the wastewater treatment charging policy were made, including the establishment of a dynamic adjustment system for wastewater treatment, the setting-up of a pricing mechanism in line with the standard of wastewater treatment and other detailed measures such as expediting the mechanism development covering the algorithm for costs and reasonable profits in relation to wastewater treatment and sludge disposal and that for marketization of wastewater treatment service. The wastewater treatment industry continuously benefits from the above policies and measures.

## DEVELOPMENT STRATEGY AND FUTURE DEVELOPMENT

Environmental protection is a basic national policy of China, and the constantly upgrading standard for wastewater discharge provides significant business opportunities for the urban wastewater treatment industry. Kangda International Environmental Company Limited (the “Company”, together with its subsidiaries, the “Group”) will continue to focus on the development of its principal business of wastewater treatment. With more than 20 years of professional experience in the wastewater treatment industry, we shall adopt an extensional growth strategy of steady operation, risk control and prudent expansion, while exploring potential on existing projects by maintaining the endogenous growth and further improving the profitability of the existing projects and the operating cash flow of the Group through upgrading and expansion and so forth.

The Group will seek more efficient financing channels to enrich our capital, reduce our debt ratio, expand financing channels, reduce financing costs and improve debt structure.

We shall continue to improve our operational efficiency and reduce our operating costs and management expenses by optimizing the management structure and implementing flattened management hierarchy, thereby reinforcing the profitability of the Group.

At the same time, the Group will revitalize inefficient assets, including disposal of shareholding equity, fixed assets and other receivables.

The Group persists in promoting innovation on internal management, optimizing our remuneration structure and increasing the proportion of performance-based compensation, in order to sufficiently spur the self-motivation of our staff from all the levels for their jobs. Talent training programmes will also be maintained with strict assessment systems so as to constantly enhance our advantages in terms of acquiring competitive talents.

Meanwhile, we shall actively establish strategic partnerships with upstream and downstream enterprises for synergy to form complementary advantages and expand customer networks. Concurrently, the Group will also continue to expand both upstream and downstream along the water industrial chain and engage in businesses such as sludge disposal, operation and construction of drainage facilities, recycling of reclaimed water and treatment of industrial wastewater, aiming at the opportunities for competitive projects among them.



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

In the first half of 2019, a wholly-owned subsidiary of the China Water Affairs Group Limited acquired approximately 29.52% of the entire issued share capital of the Company from Kangda Holdings Company Limited, and subsequently China Water Affairs Group Limited became the single largest shareholder of the Group. The adjustment of the single largest shareholder also brought new opportunities and development to the Group. The Group integrated the resources and combined the divisions to maintain its focus on the development of environmental protection business in the future.

During the six months ended 30 June 2019 (the "Reporting Period"), our principal business activities remained focusing on the Urban Water Treatment, followed by the Water Environment Comprehensive Remediation and the Rural Water Improvement.

The scope of Urban Water Treatment includes constructions and operations in Urban Water Treatment projects, reclaimed water treatment and usage, sludge disposal, water distribution, O&M (operation and maintenance of a water or wastewater treatment facility), etc. The Group's business has covered the overall industry chain in Urban Water Treatment industry by executing contracts of Build-Operate-Transfer (the "BOT"), Transfer-Operate-Transfer (the "TOT"), Public-Private-Partnership (the "PPP"), Build-Own-Operate (the "BOO"), Engineering, Procurement and Construction (the "EPC") and O&M.

The scope of Water Environment Comprehensive Remediation includes river harnessing and improvement, foul water body remediation, sponge city construction, pipeline network projects, urban comprehensive pipe tunnel, etc. The Group engages in Water Environment Comprehensive Remediation by executing previously signed contracts of PPP and EPC.

The scope of Rural Water Improvement includes the construction and operation related to "the Construction of Beautiful Village", such as wastewater treatment, pipeline for collecting wastewater, rural living environment improvement, etc. The Group started to carry out this business in 2016 by executing the contracts of PPP.

In the future, the Group will continuously focus on the business of Urban Water Treatment to get steady cash flows for pursuing more high-quality market opportunities by investing in new projects. The Group is very confident about the Group's prospects and future profitability. And we will dedicate more efforts to enhancing the profitability and effectiveness of the Group.

### 1.1 Urban Water Treatment

As at 30 June 2019, the Group had entered into a total of 108 service concession arrangements projects, including 100 wastewater treatment plants, 3 water distribution plants, 3 sludge treatment plants and 2 reclaimed water treatment plant. The Group will further expand its Urban Water Treatment chain in the future, in order to improve its profitability and competitiveness.

# MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of the Group's projects on hand as at 30 June 2019 is as follows:

	Daily wastewater treatment capacity	Daily water distribution capacity	Daily reclaimed water treatment capacity	Daily sludge treatment capacity	Total
<i>(Tonnes)</i>					
In operation	3,191,500	–	40,000	550	3,232,050
Not yet start operation/ Not yet transferred	775,000	211,300	25,000	–	1,011,300
<b>Total</b>	<b>3,966,500</b>	<b>211,300</b>	<b>65,000</b>	<b>550</b>	<b>4,243,350</b>
<i>(Number of projects)</i>					
In operation	83	–	1	3	87
Not yet start operation/ Not yet transferred	17	3	1	–	21
<b>Total</b>	<b>100</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>108</b>
		<b>Number of projects</b>	<b>Treatment capacity (Tonnes/Day)</b>	<b>Actual processing volume during the six-month period ended 30 June 2019 (Million Tonnes)</b>	
<b>Wastewater treatment services</b>					
Shandong		42	1,179,500	157.5	
Henan		22	1,030,000	160.8	
Heilongjiang		6	425,000	55.7	
Zhejiang		2	250,000	43.5	
Guangdong		4	220,000	7.2	
Anhui		3	175,000	21.4	
Shanxi		1	150,000	–	
Jiangsu		6	102,000	14.0	
Other provinces/municipalities*		14	435,000	33.6	
		100	3,966,500	493.7	
<b>Water distribution services</b>		3	211,300	–	
<b>Reclaimed water treatment services</b>		2	65,000	2.7	
<b>Total</b>		<b>105</b>	<b>4,242,800</b>	<b>496.4</b>	
<b>Sludge treatment services</b>					
		3	550	–	
<b>Total</b>		<b>108</b>	<b>4,243,350</b>	<b>496.4</b>	

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1.1.1 Operation Services

As at 30 June 2019, the Group had 83 wastewater treatment projects, 1 reclaimed water treatment project, and 3 sludge treatment projects in operation in Mainland China. Total daily treatment capacity of wastewater treatment plants, reclaimed water treatment plant, and sludge treatment plants in operation for the six-month period ended 30 June 2019 reached 3,191,500 tonnes (year ended 31 December 2018: 3,116,500 tonnes), 40,000 tonnes (year ended 31 December 2018: 40,000 tonnes), and 550 tonnes (year ended 31 December 2018: 400 tonnes), respectively. For the six-month period ended 30 June 2019, the annualized utilization rate for wastewater and reclaimed water treatment plants in operation was approximately 85% (year ended 31 December 2018: 85%). The actual average water treatment tariff for the six-month period ended 30 June 2019 was approximately RMB1.46 per tonne (year ended 31 December 2018: approximately RMB1.39 per tonne). The actual aggregate processing volume for the six-month period ended 30 June 2019 was 496.4 million tonnes, basically the same with that for the same period last year (six-month period ended 30 June 2018: 496.4 million tonnes).

Total operation revenue of the Group's Urban Water Treatment services recorded for the six-month period ended 30 June 2019 was RMB433.7 million, representing an increase of approximately 7% (six-month period ended 30 June 2018: RMB404.5 million). The corresponding increase was primarily due to the commencement of operation of new water treatment projects through construction.

## 1.1.2 Construction Services

The Group entered into a number of service concession arrangements under BOT, BOO and PPP contracts in relation to its Urban Water Treatment business. Under the International Financial Reporting Interpretation Committee 12 Service Concession Arrangements, the Group 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 from BOT, BOO, PPP and EPC projects is recognised by using the percentage-of-completion method.

For the six-month period ended 30 June 2019, construction revenue was recognised for 27 projects, including 22 wastewater treatment plants, 2 water distribution plants, and 3 sludge treatment plants, which were mainly located in Henan, Shandong, Shanxi, Heilongjiang and Guangdong provinces in Mainland China. Total construction revenue of those projects for the six-month period ended 30 June 2019 was RMB574.4 million, representing a year-on-year increase of approximately 5% (six-month period ended 30 June 2018: RMB546.5 million). The corresponding increase was primarily due to the acceleration of the progress on execution of BOT and PPP projects. As at 30 June 2019, the total daily treatment capacity of the service concession arrangements plants, which was still in the construction stage, was 735,000 tonnes, including 530,000 tonnes of wastewater treatment plants, 180,000 tonnes of water distribution plants and 25,000 tonnes of reclaimed water treatment plant.



# MANAGEMENT DISCUSSION AND ANALYSIS

## 1.2 Water Environment Comprehensive Remediation

In the first half of 2019, the Group combined the divisions and continued to devote efforts to implementing the existing projects of Water Environment Comprehensive Remediation. As at 30 June 2019, the Group entered into 2 PPP projects and 13 EPC projects in Henan, Hainan, Jiangxi, Shandong and other provinces in Mainland China. Though the amount of signed PPP contracts reached a remarkable amount, the Group devoted efforts to lower the risk and enhance the reasonable profit. The Group will integrate the resources to secure and execute the project in the business of Water Environment Comprehensive Remediation under the contracts of EPC and O&M.

The Group had 13 Water Environment Comprehensive Remediation projects under construction during the six-month period ended 30 June 2019. The projects were mainly located in Henan, Hainan, Jiangxi, Shandong and other provinces in Mainland China. For the six-month period ended 30 June 2019, total revenue of those projects was RMB72.6 million, representing a year-on-year decrease of approximately 79% (six-month period ended 30 June 2018: RMB349.5 million). The corresponding decrease was primarily due to the partial completion of the Group's EPC projects.

## 1.3 Rural Water Improvement

In the first half of 2019, the Group implemented 3 projects of Rural Water Improvement which were located in Guangdong and Guizhou provinces. For the six-month period ended 30 June 2019, total revenue of those projects was RMB32.9 million, representing a year-on-year decrease of approximately 7% (six-month period ended 30 June 2018: RMB35.2 million). The corresponding decrease was primarily because a large part of the project executed from 2016 approached completion.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL ANALYSIS

### Revenue

For the six-month period ended 30 June 2019, the Group recorded a revenue of RMB1,412.6 million, representing a decrease of approximately 12% as compared to the previous corresponding period of RMB1,607.5 million. The decrease was mainly due to the decrease in construction revenue of RMB251.5 million, the increase in operation revenue of RMB29.2 million, and the increase in financial income of RMB27.4 million. The decrease in construction revenue was mainly due to the increase in completion of the EPC projects of Water Environment Comprehensive Remediation services. The increase in operation revenue was mainly due to the increase in commencement of operation of new BOT and upgrade projects of Urban Water Treatment. The increase in financial income was mainly due to the increase in the financial assets.

### Cost of Sales

The Group's cost of sales for the six-month period ended 30 June 2019 amounted to RMB817.3 million, including construction costs of RMB527.3 million and operation costs of water treatment plants of RMB290.0 million, and representing a decrease of approximately 22% as compared to the previous corresponding period of RMB1,049.6 million. The decrease was due to the decrease in construction costs. The decrease in construction costs was mainly due to the increase in completion of the EPC projects of Water Environment Comprehensive Remediation services.

### Gross Profit Margin

For the six-month period ended 30 June 2019, gross profit margin was approximately 42%, representing an increase of 7 percentage points as compared to the previous corresponding period of approximately 35%. The increase was mainly due to the higher construction margin recognized when the EPC projects finished and the increase in the proportion of financial income.

### Other Income and Gains

The Group recorded other income and gains of RMB68.2 million for the six-month period ended 30 June 2019, representing a decrease of approximately 22% as compared to the previous corresponding period of RMB87.5 million. The amount for this Reporting Period primarily included government grants of RMB21.5 million, which mainly comprised of VAT refund under "Notice on the Issuing of the Catalogue of Value-Added Tax Preferences for Products and Labor Services Involving the Comprehensive Utilization of Resources (CaiShui [2015] No. 78)" (關於印發《資源綜合利用產品和勞務增值稅優惠目錄》的通知) (財稅[2015] 78號文) and grants for environmental protection, bank interest income of RMB2.7 million, interest income of RMB11.5 million from loans to third parties, interest income of RMB3.6 million from loans to an associate and joint ventures, gains on disposal of a subsidiary of RMB1.6 million, dividend income of RMB9.1 million and other investment income of RMB17.4 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Selling and Distribution Expenses

The Group's selling and distribution expenses for the six-month period ended 30 June 2019 was RMB3.4million, representing a climb decrease of approximately 56% as compared to RMB7.8 million of the previous corresponding period, which was a result of stringent management and cost control.

## Administrative Expenses

Administrative expenses for the six-month period ended 30 June 2019 was RMB120.3 million, representing a decrease of approximately 16% as compared to the previous corresponding period of RMB143.0 million. The decrease was mainly due to the decrease in staff costs and traveling and entertainment expenses which was caused by the stringent management and cost control.

## Finance Costs

Finance costs for the six-month period ended 30 June 2019 of RMB273.7 million mainly comprised of interests on interest-bearing bank and other borrowings and corporate bonds, representing an increase of approximately 22% as compared to RMB224.0 million in the previous corresponding period. The increase in finance costs was mainly due to, the increase of average interest-bearing bank and other borrowings and corporate bonds, and higher interest rate on interest-bearing bank and other borrowings obtained in the second half of last year. The average balance of interest-bearing bank and other borrowings and corporate bonds increased by RMB490.2 million and the average interest rate was 6.00%, representing an increase of 0.81 percentage points as compared to that in the previous corresponding period. Due to the rapid increase in finance costs, the Group will seek practical way to optimize loan structure, expand financing channels and methods and lower the average interest rate in the coming year.

## Share of Profits and Losses of Associates

Share of losses of associates for the six-month period ended 30 June 2019 was RMB4.0 million, representing a slight increase as compared to share of losses of associates of RMB3.6 million in the previous corresponding period.

## Income Tax Expense

Income tax expense for the six-month period ended 30 June 2019 included the current PRC income tax of RMB30.2 million and deferred tax expenses of RMB41.8 million, which were RMB35.4 million and RMB32.4 million for the previous corresponding period, respectively. The Group's effective tax rate for the six-month period ended 30 June 2019 was approximately 28%, representing a slight increase as compared with 27% for the last corresponding period.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Receivables

	As at	
	30 June 2019 RMB'000	31 December 2018 RMB'000
Receivables for service concession arrangements	7,957,122	7,831,580
Portion classified as current	1,471,544	1,400,911
Non-current portion	6,485,578	6,430,669

As at 30 June 2019, the Group's financial receivables of RMB7,957.1 million (31 December 2018: RMB7,831.6 million) increased by RMB125.5 million, which was mainly due to the increase in financial receivables which were reclassified from contract assets once the construction and upgrade period is ended for the water treatment projects .

## Contract Assets

	As at	
	30 June 2019 RMB'000	31 December 2018 RMB'000
Contract assets	3,007,302	2,491,404
Portion classified as current	328,712	209,474
Non-current portion	2,678,590	2,281,930

As at 30 June 2019, the Group's contract assets of RMB3,007.3 million (31 December 2018: RMB2,491.4 million), increased by RMB515.9 million, mainly arising from the increase in construction of the Group's projects under BOT, PPP ,and EPC contracts.

## Trade and Bills Receivables

As at 30 June 2019, the Group's trade and bills receivables of RMB1,385.1 million (31 December 2018: RMB1,296.0 million) mainly arose from the provision of wastewater treatment and sludge treatment services for Urban Water Treatment projects as well as construction services for the Group's Water Environment Comprehensive Remediation projects. The balance increased by RMB89.1 million, mainly due to (i) the increase of Urban Water Treatment projects receivables of approximately RMB170.7 million, and (ii) the net decrease of Water Environment Comprehensive Remediation projects receivables of approximately RMB82.2 million, which included EPC project receivables of approximately RMB40.6 million arising from the progress billing and cash collected from EPC and BT projects of approximately RMB122.8 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Prepayments, Other Receivables and Other Assets

As at 30 June 2019, the Group's prepayments, other receivables and other assets of RMB944.9 million (31 December 2018: RMB1,046.4 million) decreased by RMB101.5 million, mainly arising from the decrease in prepayments of approximately RMB25.0 million related to wastewater treatment plants construction, the decrease in other operational receivables and accrued interests of approximately RMB106.2 million, and increase from deductible input VAT of approximately RMB30.6 million.

## Cash and Cash Equivalents

As at 30 June 2019, the Group's cash and cash equivalents of RMB150.4 million (31 December 2018: RMB976.2 million) decreased by RMB825.8 million as compared with that as at the end of previous period. The decrease was due to the increase in cash outflows in financing activities of the Group.

	For the six-month period ended 30 June	
	2019 RMB'000	2018 RMB'000
Net cash flows used in operating activities <sup>(1)</sup>	(159,179)	(121,377)
Net cash flows used in investing activities	(127,668)	(972,093)
Net cash flows (used in)/from financing activities	(539,051)	178,517
Net decrease in cash and cash equivalents	(825,898)	(914,953)
Effect of foreign exchange rate changes	3	(447)
Cash and cash equivalents at beginning of the period	976,246	1,689,633
Cash and cash equivalents at end of the period	150,351	774,233

Note:

- (1) For the six-month period ended 30 June 2019 and 2018, the Group invested RMB376.1 million and RMB413.3 million, respectively, in the Group's BOT, TOT and PPP projects. Such investments were accounted for as cash flows used in operating activities. Under the relevant accounting treatment, part of such cash outflows used in operating activities was used to form the non-current portion of financial receivables and contract assets in the Group's interim condensed consolidated statement of financial position. For the six-month period ended 30 June 2019 and 2018, the Group would have incurred cash inflows of RMB216.9 million and RMB291.9 million, respectively, if the Group's investments in BOT, TOT and PPP activities were not accounted for as cash flows used in operating activities.

## Trade and Bills Payables

As at 30 June 2019, the Group's trade and bills payables of RMB1,639.0 million (31 December 2018: RMB1,638.3 million) increased by RMB0.7 million, which was in line with the increase of the Group's construction work carried out and the settlements.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Other Payables and Accruals

As at 30 June 2019, the Group's other payables and accruals of RMB430.1 million (31 December 2018: RMB507.0 million) decreased by RMB76.9 million, which was mainly due to the decrease in payables for acquisitions and the decrease by the repayment of borrowings from non-controlling shareholders.

## Liquidity and Financial Resources

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

As at 30 June 2019, the carrying amount of the Group's cash and cash equivalents was RMB150.4 million, representing a decrease of approximately RMB825.8 million as compared to RMB976.2 million as at 31 December 2018, which was mainly due to the net cash outflows in financing activities of RMB539.1 million, settlements of acquisition and investing payables of RMB52.8 million and cash outflows of RMB87.6 million for purchases of property, plant and equipment and intangible assets from investing activities, cash outflows of RMB44.7 million for addition of pledged deposits, repurchase of other non-current financial assets of RMB49.7 million, decrease in loans to a joint venture of RMB6.0 million from investing activities, cash inflows of RMB1.9 million for disposal of a subsidiary from investing activities, and the net cash outflows of RMB159.2 million from operating activities.

The Group's total interest-bearing bank and other borrowings amounted to RMB7,537.3 million as at 30 June 2019 (31 December 2018: RMB7,096.0 million), including lease liabilities of RMB5.0 million arising from the application of new lease standard under IFRS 16 — Leases as at 1 January 2019, over 78% of interest-bearing bank and other borrowings bear interest at floating rates.

The Group's total corporate bonds amounted to RMB1,478.5 million as at 30 June 2019 (31 December 2018: RMB2,140.5 million), which comprised of corporate bonds issued on 18 December 2015 and 13 June 2018, with an aggregate amount of RMB900.0 million and RMB300.0 million respectively, and asset backed securities (the "ABS") issued on 10 August 2018 with net cash amount of RMB319.0 million. All the corporate bonds and ABS bear interest at fixed rates.

As at 30 June 2019, the Group had banking facilities amounting to RMB57,711.3 million, of which RMB49,238.8 million have not been utilised. Of the unutilised banking facilities as at that date, RMB50.0 million were unrestricted facilities and the remaining RMB49,188.8 million were restricted facilities, of which RMB48,988.8 million were mainly limited to be utilized on environmental protection infrastructure and comprehensive management, and RMB200.0 million were mainly limited to be utilized for supplement of current loans to the Group .

As at 30 June 2019, the gearing ratio of the Group (calculated by net debt divided by capital and net debt) was 71%, while the gearing ratio was 70% as at 31 December 2018.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Charges on the Group's Assets

Outstanding balance of interest-bearing bank and other borrowings as at 30 June 2019 was approximately RMB7,537.3 million, which were repayable within one month to twenty-six years and were secured by financial receivables, service concession intangible assets, properties, plants and equipment, trade receivables, contract assets and pledged deposits, of which the total amounts of the pledge of assets amounted to RMB6,850.7 million.

## EMPLOYEES AND REMUNERATION POLICIES

The Group had 2,172 employees as at 30 June 2019. The remuneration package of the Group is generally determined with reference to market conditions and individual performance. Salaries are normally reviewed annually based on performance appraisals and other relevant factors. The Group provides external and internal training programs to its employees.

## CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any significant contingent liabilities (31 December 2018: 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 30 June 2019, except for the bank deposits and certain amount of interest-bearing bank borrowings denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations. Currently, the Group has not used derivative financial instruments to hedge its foreign currency risk.

## EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to 30 June 2019.

# OTHER INFORMATION

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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 (the “Board”) of directors (the “Directors”) of the Company believes that good corporate governance is one of the factors that lead to the success of the Company and in balancing the interests of its 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 Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Board is of the view that during the six months ended 30 June 2019, 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.

## INTERIM DIVIDEND

The Board did not recommend the payment of interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

## OTHER INFORMATION

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

As at 30 June 2019, 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

<b>Name of Director</b>	<b>Nature of Interest</b>	<b>Number of Shares</b>	<b>Approximate Percentage of Issued Share Capital of the Company</b>
Mr. Zhao Juanxian (alias, Zhao Junxian) <sup>(1)</sup>	Person acting in concert (long position)	546,728,004	26.90%

Notes:

- (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 30 June 2019, 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.



## OTHER INFORMATION

### INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES

As at 30 June 2019, 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	Percentage of Issued Share Capital of the Company
China Water Affairs Group Limited <sup>(1)</sup>	Interest of controlled corporation (long position)	600,000,000	29.52%
Sharp Profit Investment Limited <sup>(1)</sup>	Beneficial owner (long position)	600,000,000	29.52%
Mr. Zhao Sizhen <sup>(2)</sup>	Interest of controlled corporation (long position)	543,828,004	26.76%
	Beneficial owner (long position)	2,900,000	0.14%
Kangda Holdings Company Limited <sup>(3)</sup>	Beneficial owner (long position)	543,828,004	26.76%
Baring Private Equity Asia V Holding (5) Limited <sup>(4)</sup>	Beneficial owner (long position)	344,129,996	16.93%
The Baring Asia Private Equity Fund V, L.P. <sup>(4)</sup>	Interest of controlled corporation (long position)	344,129,996	16.93%
Baring Private Equity Asia GP V, L.P. <sup>(4)</sup>	Interest of controlled corporation (long position)	344,129,996	16.93%
Baring Private Equity Asia GP V Limited <sup>(4)</sup>	Interest of controlled corporation (long position)	344,129,996	16.93%
Mr. Jean Eric Salata <sup>(4)</sup>	Interest of controlled corporation (long position)	344,129,996	16.93%

Notes:

- (1) Sharp Profit Investment Limited is wholly owned by China Water Affairs Group Limited. China Water Affairs Group Limited is therefore deemed to be interested in the shares held by Sharp Profit Investment Limited under the SFO.
- (2) 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.
- (3) 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 under the SFO.
- (4) 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. Mr. 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 Mr. Jean Eric Salata is deemed to be interested in the relevant shares held by Baring Private Equity Asia V Holding (5) Limited. Mr. 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 30 June 2019, the Directors were not aware of any persons (who were not a Director 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.

# OTHER INFORMATION

## CHANGE IN DIRECTORS AND SENIOR MANAGEMENT MEMBERS

Mr. Zhang Weizhong submitted his resignation to the Board for resigning from the office as an executive Director, a member of the nomination committee of the Board (the "Nomination Committee") and an authorised representative of the Company, with effect from 4 April 2019.

Ms. Liu Zhiwei submitted her resignation to the Board for resigning from the office as an executive Director and an authorised representative of the Company, with effect from 4 April 2019.

Mr. Gu Weiping submitted his resignation to the Board for resigning from the office as an executive Director and a member of the remuneration committee of the Board (the "Remuneration Committee"), with effect from 4 April 2019.

Mr. Wang Litong submitted his resignation to the Board for resigning from the office as an executive Director, with effect from 4 April 2019.

Mr. Wang Tianci submitted his resignation to the Board for resigning from the office as an executive Director, with effect from 4 April 2019.

Mr. Tsui Yiu Wa Alec submitted his resignation to the Board for resigning from the office as an independent non-executive Director, the chairman of audit committee of the Board (the "Audit Committee") and a member of the Nomination Committee, with effect from 4 April 2019.

Mr. Li Zhong was appointed as an executive Director and a member of the Nomination Committee, with effect from 4 April 2019.

Ms. Liu Yujie was appointed as an executive Director, with effect from 4 April 2019.

Mr. Duan Jerry Linnan was appointed as an executive Director, with effect from 4 April 2019.

Mr. Chau Kam Wing Donald was appointed as an independent non-executive Director, the chairman of Audit Committee, a member of the Remuneration Committee and the chairman of the Nomination Committee, with effect from 4 April 2019.

Mr. Zhao Juanxian (alias, Zhao Junxian) and Mr. Li Zhong were appointed as the authorised representatives of the Company, with effect from 4 April 2019.

Mr. Zhang Weizhong has tendered his resignation as the chief executive officer of the Company, with effect from 9 April 2019.

Mr. Li Zhaoliang has tendered his resignation as the chief financial officer of the Company, with effect from 9 April 2019.

Mr. Duan Jerry Linnan was appointed as the chief executive officer of the Company, with effect from 9 April 2019.

Mr. Zhou Wei was appointed as the chief financial officer of the Company, with effect from 9 April 2019.

# OTHER INFORMATION

## REASONS FOR APPOINTMENT OF THE CO-CHAIRMEN

Mr. Zhao Juanxian, as the founder of the Company and with more than 27 years of management experience in the environmental protection industry, has a very strong reputation in the environmental protection industry. As the chairman of the Board, Mr. Zhao Juanxian has been leading the Directors to make positive efforts for the development and governance of the Company, and he will continue to perform his duties as co-chairman of the Board (the "Co-Chairman") in the future.

In view of Mr. Li Zhong's overseas education background and past work experience, his duty of co-chairmanship will promote corporate governance to a higher standard and promote the operation efficiency of the Board. At the same time, Mr. Li Zhong will play an important role in communicating with overseas shareholders of the Company and external institutions such as financial institutions and media.

The Company believes that Mr. Zhao Juanxian and Mr. Li Zhong, as Co-Chairmen, will be more conducive to improving the management efficiency and corporate governance of the Company by leveraging on their diversified experience.

The general duties and responsibilities of the Co-Chairman have been stipulated in the articles of association of the Company and the Corporate Governance Code. As far as Mr. Zhao Juanxian and Mr. Li Zhong performing their roles as Co-Chairmen, such duties and responsibilities stipulated in the articles of association of the Company and the Corporate Governance Code will be shared by them from time to time. In addition, Mr. Zhao Juanxian will focus more on the strategic development of the Group, Mr. Li Zhong will focus more on the Group's fund management, and there will be no conflict between the two Co-Chairmen in performing their duties. Both Mr. Zhao Juanxian and Mr. Li Zhong, as Co-Chairmen, will collectively ensure that the duties of a chairman under the Corporate Governance Code are fulfilled.

The Board understands that the Co-Chairmen arrangement has been adopted by many companies listed at the Stock Exchange, and with reasons stated above, the Board considers that this arrangement is reasonable in order to strengthen the management efficiency of our Company and ensuring that the Company as it continues to further develop in the future, will maintain robust corporate governance practices.

## 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.

## SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") for a term of 10 years on 14 June 2014 (the "Adoption Date"). During the six months ended 30 June 2019, no share options under the Share Option Scheme was granted, exercised, cancelled or lapsed. As at 30 June 2019, no share options was outstanding under the Share Option Scheme.

# OTHER INFORMATION

## AUDIT COMMITTEE AND REVIEW OF THE INTERIM RESULTS

The Company has established 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 consists of three independent non-executive Directors, being Mr. Chau Kam Wing Donald (appointed on 4 April 2019), Mr. Chang Qing, and Mr. Peng Yongzhen, and Mr. Chau Kam Wing Donald is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2019. The Audit Committee has also discussed matters with respect to the accounting policies, the practices adopted by the Company and the internal control with senior management members of the Company.

The unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2019 has also been reviewed by the Company's auditor, Ernst & Young, in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by International Auditing and Assurance Standards Board.

## REMUNERATION COMMITTEE

The Company has established the Remuneration Committee on 30 October 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code. 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. Peng Yongzhen, Mr. Zhao Juanxian (alias, Zhao Junxian) and Mr. Chau Kam Wing Donald (appointed on 4 April 2019), and Mr. Peng Yongzhen is the chairman of the Remuneration Committee.

## NOMINATION COMMITTEE

The Company has established the Nomination Committee on 30 October 2013 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. Chau Kam Wing Donald (appointed on 4 April 2019), Mr. Zhao Juanxian (alias, Zhao Junxian), Mr. Li Zhong (appointed on 4 April 2019), Mr. Peng Yongzhen and Mr. Chang Qing, and Mr. Chau Kam Wing Donald (appointed on 4 April 2019) is the chairman of the Nomination Committee.

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.



## OTHER INFORMATION

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.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("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 standards as set out in the Model Code during the six months ended 30 June 2019.

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

### PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement has been published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.kangdaep.com](http://www.kangdaep.com). This interim report of the Group for the six months ended 30 June 2019 will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to the Company's shareholders in due course.

By order of the Board  
**Kangda International Environmental Company Limited**  
*Co-Chairman*  
**Mr. Zhao Juanxian (alias, Zhao Junxian)**

Hong Kong, 30 August 2019

# INDEPENDENT REVIEW REPORT



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## To the board of directors of Kangda International Environmental Company Limited

*(Incorporated in the Cayman Islands with limited liability)*

## INTRODUCTION

We have reviewed the interim financial information set out on pages 23 to 62, which comprises the condensed consolidated statement of financial position of Kangda International Environmental Company Limited (the "Company") and its subsidiaries (the "Group") as at 30 June 2019 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

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

## CONCLUSION

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

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

30 August 2019

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

For the six-month period ended 30 June 2019

	Notes	For the six-month period ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
<b>REVENUE</b>	4	<b>1,412,568</b>	1,607,487
Cost of sales		<b>(817,303)</b>	(1,049,581)
Gross profit		<b>595,265</b>	557,906
Other income and gains	5	<b>68,214</b>	87,464
Selling and distribution expenses		<b>(3,388)</b>	(7,751)
Administrative expenses		<b>(120,267)</b>	(143,002)
Other expenses		<b>(2,593)</b>	(11,739)
Finance costs	7	<b>(273,681)</b>	(224,039)
Share of profits and losses of:			
Associates		<b>(3,999)</b>	(3,613)
Joint ventures		<b>1,372</b>	(1,883)
<b>PROFIT BEFORE TAX</b>	6	<b>260,923</b>	253,343
Income tax expense	8	<b>(71,987)</b>	(67,830)
<b>PROFIT FOR THE PERIOD</b>		<b>188,936</b>	185,513
Profit attributable to:			
Owners of the parent		<b>183,595</b>	183,660
Non-controlling interests		<b>5,341</b>	1,853
		<b>188,936</b>	185,513
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
— Basic and diluted	9	<b>RMB 8.98 cents</b>	RMB 8.93 cents
<b>OTHER COMPREHENSIVE EXPENSE</b>			
Other comprehensive expense that will not be reclassified to profit or loss in subsequent periods, net of tax:			
Fair value loss on equity investments designated at fair value through other comprehensive income		<b>(112,200)</b>	(94,350)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>76,736</b>	91,163
Total comprehensive income attributable to:			
Owners of the parent		<b>71,395</b>	89,310
Non-controlling interests		<b>5,341</b>	1,853
		<b>76,736</b>	91,163

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	137,573	143,167
Investment properties		10,178	10,524
Investments in associates		244,553	221,843
Investment in joint ventures		141,776	140,403
Equity investments designated at fair value through other comprehensive income		357,000	489,000
Service concession intangible assets		824,795	737,174
Other intangible assets		3,409	3,554
Contract assets		2,678,590	2,281,930
Goodwill		60,219	60,219
Financial receivables	11	6,485,578	6,430,669
Deferred tax assets		116,388	90,383
Right-of-use assets		4,824	–
Other non-current assets		–	793,030
Prepayments, other receivables and other assets		325,168	427,855
Total non-current assets		11,390,051	11,829,751
<b>CURRENT ASSETS</b>			
Inventories		14,921	14,556
Contract assets		328,712	209,474
Financial receivables	11	1,471,544	1,400,911
Trade and bills receivables	12	1,385,073	1,295,999
Prepayments, other receivables and other assets		619,744	618,563
Pledged deposits		224,444	179,727
Other current assets		743,324	–
Cash and cash equivalents		150,351	976,246
Total current assets		4,938,113	4,695,476
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	13	1,634,226	1,628,869
Other payables and accruals		392,481	506,968
Deferred income		4,658	19,650
Interest-bearing bank and other borrowings	14	3,524,764	3,011,743
Corporate bonds		11,394	671,394
Tax payable		28,146	28,807
Total current liabilities		5,595,669	5,867,431
<b>NET CURRENT LIABILITIES</b>		<b>(657,556)</b>	<b>(1,171,955)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>10,732,495</b>	<b>10,657,796</b>



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
<b>NON-CURRENT LIABILITIES</b>			
Trade payables	13	4,732	9,396
Interest-bearing bank and other borrowings	14	4,012,585	4,084,177
Corporate bonds		1,467,147	1,469,105
Deferred income		–	10,333
Other payables and accruals		37,639	–
Deferred tax liabilities		811,023	763,112
<b>Total non-current liabilities</b>		<b>6,333,126</b>	6,336,123
<b>Net assets</b>		<b>4,399,369</b>	4,321,673
<b>EQUITY</b>			
Equity attributable to owners of the parent			
Issued capital		16,143	16,143
Reserves		4,171,428	4,098,510
		<b>4,187,571</b>	4,114,653
Non-controlling interests		211,798	207,020
<b>Total equity</b>		<b>4,399,369</b>	4,321,673

**Li Zhong**  
Director

**Duan Jerry Linnan**  
Director

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2019

	Attributable to owners of the parent									
	Issued capital RMB'000 (Unaudited)	Share premium RMB'000 (Unaudited)	Merger reserve RMB'000 (Unaudited)	Special reserve RMB'000 (Unaudited)	Share option reserve RMB'000 (Unaudited)	Equity investments designated at fair value through other comprehensive income revaluation reserve RMB'000 (Unaudited)	Retained profits RMB'000 (Unaudited)	Total RMB'000 (Unaudited)	Non-controlling interests RMB'000 (Unaudited)	Total equity RMB'000 (Unaudited)
As at 1 January 2018 (audited)	16,392	1,715,535	376,198	-	56,395	99,450	1,730,955	3,994,925	203,547	4,198,472
Profit for the period	-	-	-	-	-	-	183,660	183,660	1,853	185,513
Other comprehensive income for the period:										
Changes in fair value of fair value through other comprehensive income, net of tax	-	-	-	-	-	(94,350)	-	(94,350)	-	(94,350)
Total comprehensive expenses for the period	-	-	-	-	-	(94,350)	183,660	89,310	1,853	91,163
Dividends declared	-	(41,122)	-	-	-	-	-	(41,122)	-	(41,122)
Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	2,605	2,605
Acquisition of non-controlling interests	-	-	755	-	-	-	-	755	(1,836)	(1,081)
Shares repurchased	(243)	(30,976)	-	-	-	-	-	(31,219)	-	(31,219)
Transfer to special reserve (b)	-	-	-	13,980	-	-	(13,980)	-	-	-
Utilisation of special reserve (b)	-	-	-	(13,980)	-	-	13,980	-	-	-
As at 30 June 2018	16,149	1,643,437*	376,953*	-*	56,395*	5,100*	1,914,615*	4,012,649	206,169	4,218,818
As at 31 December 2018 (audited)	16,143	1,643,661	376,899	-	56,395	(12,750)	2,034,305	4,114,653	207,020	4,321,673
Profit for the period	-	-	-	-	-	-	183,595	183,595	5,341	188,936
Other comprehensive income for the period:										
Changes in fair value of fair value through other comprehensive income, net of tax	-	-	-	-	-	(112,200)	-	(112,200)	-	(112,200)
Total comprehensive expenses for the period	-	-	-	-	-	(112,200)	183,595	71,395	5,341	76,736
Capital contribution from a non-controlling shareholder	-	-	-	-	-	-	-	-	5,000	5,000
Acquisition of non-controlling interests (a)	-	-	1,523	-	-	-	-	1,523	(5,563)	(4,040)
Transfer to special reserve (b)	-	-	-	10,201	-	-	(10,201)	-	-	-
Utilisation of special reserve (b)	-	-	-	(10,201)	-	-	10,201	-	-	-
As at 30 June 2019	16,143	1,643,661*	378,422*	-*	56,395*	(124,950)*	2,217,900*	4,187,571	211,798	4,399,369

\* These reserve accounts comprise the consolidated reserves of RMB4,171,428,000 (30 June 2018: RMB3,996,500,000) in the consolidated statement of financial position.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2019

Notes:

- (a) On 30 May 2019, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, further acquired a 1% interest in Dong'e County Guohuan Sewage Treatment Co., Ltd. (東阿縣國環污水處理有限公司) ("Dong'e Guohuan"), Liaocheng Jiaming Guohuan Sewage Treatment Co., Ltd. (聊城嘉明國環污水處理有限公司) ("Jiaming Guohuan"), Linqing City Guohuan Sewage Treatment Co., Ltd. (臨清市國環污水處理有限公司) ("Linqing Guohuan"), Jining Guohuan Sewage Treatment Co., Ltd. (濟寧市國環污水處理有限公司) ("Jining Guohuan"), Shen County Guohuan Sewage Treatment Co., Ltd. (莘縣國環污水處理有限公司) ("Shen County Guohuan") from Shandong Guohuan Industrial Investment Co., Ltd. (山東國環產業投資有限公司) ("Shandong Guohuan").
- (b) In preparation of these consolidated financial statements, the Group has appropriated certain amounts of retained profits to a special reserve fund for each of the six-month periods ended 30 June 2018 and 2019 respectively, for safety production expense purposes as required by directives issued by the relevant People's Republic of China ("PRC") government authorities. The Group charged the safety production expenses to profit or loss when such expenses were incurred, and at the same time the corresponding amounts of special reserve fund were utilised and transferred back to retained profits until such special reserve was fully utilised.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2019

	Notes	For the six-month period ended 30 June	
		2019	2018
		RMB'000 (Unaudited)	RMB'000 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		260,923	253,343
Adjustments for:			
Finance costs	7	273,681	224,039
Foreign exchange differences		139	(4,291)
Share of profit and loss of associates and joint ventures		2,627	5,496
Bank interest income	5	(2,665)	(3,819)
Interest income from loans to third parties	5	(11,478)	(8,475)
Interest income from loans to an associate and joint ventures	5	(3,622)	(2,041)
Investment income	5	(17,420)	(126)
Dividend income from equity investments designated at fair value through other comprehensive income	5	(9,143)	(14,325)
Depreciation of property, plant and equipment	6	5,625	5,931
Depreciation of investment properties	6	346	351
Depreciation of right-of-use assets	6	1,562	–
Amortisation of service concession intangible assets	6	22,379	20,545
Amortisation of other intangible assets	6	157	156
Losses on disposal of an associate		–	8,154
Gains on disposal of a subsidiary	5	(1,595)	–
Gains on disposal of items of property, plant and equipment, net		72	85
Write-off of impairment of trade receivables	6	–	2,567
Impairment of trade receivables and other receivables	6	1,209	444
		<b>522,797</b>	488,034
Increase in inventories		(365)	(3,982)
Increase in financial receivables		(185,372)	(15,148)
Increase in contract assets		(384,585)	(548,301)
Increase in trade and bills receivables		(89,071)	(220,117)
Decrease/(Increase) in prepayments, other receivables and other assets		25,930	(229)
(Decrease)/Increase in trade and bills payables		(41,928)	303,455
Increase/(Decrease) in other payables and accruals		9,148	(24,445)
Increase/(Decrease) in contract liabilities		304	(50,584)
Increase/(Decrease) in deferred income		12,314	(12,726)
Cash used in operating activities		(130,828)	(84,043)
Interest received		2,514	5,860
Income taxes paid		(30,865)	(43,194)
Net cash flows used in operating activities		<b>(159,179)</b>	(121,377)



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2019

	Notes	For the six-month period ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of items of property, plant and equipment		(557)	(2,687)
Additions to service concession intangible assets		(88,227)	(52,872)
Additions of investments in an associate		(26,710)	(101,826)
Proceeds from disposals of items of property, plant and equipment		967	722
Increase of non-pledged time deposits with original maturity of more than three months when acquired		–	(460,000)
Additions of other non-current assets		–	(151,500)
Disposals of other current assets		49,706	–
Disposal of subsidiaries		1,907	–
Investment income received		–	126
Acquisition of a subsidiary, net of cash acquired		(22,000)	(87,369)
Acquisition of non-controlling interests		(4,040)	(1,081)
Decrease/(Increase) in loans due from third parties included in other receivables		6,003	(91,003)
Increase in pledged deposits		(44,717)	(24,603)
Net cash flows used in investing activities		(127,668)	(972,093)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase of bank loans		1,930,040	1,984,732
Proceeds from issue of corporate bonds		–	600,000
Repayment of bank loans		(1,528,762)	(1,686,342)
Repayment of corporate bonds		(667,997)	(500,000)
Interest paid		(275,854)	(191,259)
Principal portion of lease payments		(1,478)	–
Share repurchased		–	(31,219)
Capital contribution from a non-controlling shareholder		5,000	2,605
Net cash flows (used in)/from financing activities		(539,051)	178,517
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of the period		976,246	1,689,633
Effect of foreign exchange rate changes, net		3	(447)
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>		<b>150,351</b>	<b>774,233</b>

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 1. CORPORATE AND GROUP 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’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 4 July 2014.

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

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

### 2.1 Basis of preparation

The interim condensed consolidated financial information for the six-month period ended 30 June 2019 has been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* issued by the International Accounting Standards Board and in compliance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018.

The unaudited interim condensed consolidated financial statements have been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income, which has been measured at fair value and are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand, except when otherwise indicated.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### Going concern

As at 30 June 2019, the Group's current liabilities exceeded its current assets by approximately RMB657,556,000 (31 December 2018: net current liabilities: RMB1,171,955,000). In addition, the Group has contracted capital commitments of RMB218,834,000 and commitments in respect of service concession arrangements of RMB3,204,701,000. As at the date of approval of these interim condensed consolidated financial statements, the directors of the Company have considered the Group's available sources of funds subsequent to 30 June 2019, which are as follows:

- (i) Additional bank loans and facilities were already obtained during July 2019 and August 2019;
- (ii) Bank loans and facilities expected to be obtained or renewed which the directors of the Company are confident that such loans and facilities will be obtained or continuously renewed upon their respective expirations in the foreseeable future based on the Group's past experience, good credit standing and/or latest communications with the relevant financial institutions;
- (iii) Unutilised facilities to issue domestic medium-term notes by the Group as approved by the relevant PRC government authorities; and
- (iv) Expected cash inflows arising from the Group's operating activities subsequent to 30 June 2019.

In light of the available funding as mentioned above, and after taking into account the operating performance of the Group and cash flow projection prepared by the directors of the Company. The directors of the Company are confident that the Group will have sufficient working capital to meet with its financial obligations and operation requirements in the foreseeable future of at least up to 30 June 2020. Hence the directors of the Company are of the opinion that it is appropriate to prepare these interim condensed consolidated financial statements under the going concern basis.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

### 2.2 Impact of new and revised International Financial Reporting Standards ("IFRSs")

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new and revised standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 16 Leases. As required by IAS 34, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 16	<i>Leases</i>
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term interests in associates and joint ventures</i>
IFRIC Interpretation 23	<i>Uncertainty over Income Tax Treatment</i>
<i>Annual Improvements 2015–2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

#### **IFRS 16 Leases**

IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases — Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

#### *New definition of a lease*

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

### 2.2 Impact of new and revised International Financial Reporting Standards ("IFRSs") *(continued)*

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

#### As a lessee — Leases previously classified as operating leases

##### *Nature of the effect of adoption of IFRS 16*

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

##### *Impacts on transition*

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

### 2.2 Impact of new and revised International Financial Reporting Standards ("IFRSs") *(continued)*

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB'000 (Unaudited)
<b>Assets</b>	
Increase in right-of-use assets	6,387
Increase in total assets	6,387
<b>Liabilities</b>	
Increase in interest-bearing bank and other borrowings	6,387
Increase in total liabilities	6,387
Decrease in retained earnings	–

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000 (Unaudited)
<b>Operating lease commitments as at 31 December 2018</b>	14,228
Weighted average incremental borrowing rate as at 1 January 2019	4.91%
Discounted operating lease commitments as at 1 January 2019	7,941
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	1,554
<b>Lease liabilities as at 1 January 2019</b>	6,387

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

### 2.2 Impact of new and revised International Financial Reporting Standards ("IFRSs") *(continued)*

#### Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

#### Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

#### Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

### 2.2 Impact of new and revised International Financial Reporting Standards ("IFRSs") *(continued)*

#### Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease equipment for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

#### Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within 'interest-bearing bank and other borrowings'), and the movement during the period are as follow:

	Right-of-use assets		Lease liabilities
	Plant and machinery RMB'000	Sub total RMB'000	RMB'000
<b>As at 1 January 2019</b>			
Additions	6,387	6,387	6,387
Depreciation charge	(1,562)	(1,562)	–
Interest expense	–	–	155
Payments	–	–	(1,478)
<b>As at 30 June 2019</b>	<b>4,825</b>	<b>4,825</b>	<b>5,064</b>

The Group recognised rental expenses from short-term leases of RMB1,193,000 for the six months ended 30 June 2019.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

### 2.2 Impact of new and revised International Financial Reporting Standards ("IFRSs") *(continued)*

#### ***Amendments to IFRS 9: Prepayment Features with Negative Compensation***

Amendments to IFRS 9 allow financial assets with prepayment features that permit or require either the borrower or the lender to pay or receive reasonable compensation for the early termination of a contract to be measured at amortised cost or at fair value through other comprehensive income, rather than at fair value through profit or loss. The amendments clarify that a financial asset passes the "solely payments of principal and interest on the principal amount outstanding" criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for that early termination. The amendments did not apply to the Group as the Group did not have any debt instruments with prepayment features along with compensation for early termination. In addition, as clarified in the amendments to the basis for conclusions on IFRS 9, the gain or loss arising on modification of a financial liability that does not result in derecognition (calculated by discounting the change in contractual cash flows at the original effective rate) is immediately recognised in profit or loss. The Group's accounting policy is consistent with this clarification and therefore the adoption of the amendments has no impact on the Group.

#### ***Amendments to IAS 19: Plan Amendment, Curtailment or Settlement***

Amendments to IAS 19 address the accounting for a defined benefit plan when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to (i) determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability or asset reflecting the benefits offered under the plan and the plan assets after that event, and (ii) determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability or asset, reflecting the benefits offered under the plan and the plan assets after that event and the discount rate used to remeasure that net defined benefit liability or asset.

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in net interest, is recognised in other comprehensive income. The amendments did not have any impact on the Group's interim condensed consolidated financial information.



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

### 2.2 Impact of new and revised International Financial Reporting Standards ("IFRSs") *(continued)*

#### ***Amendments to IAS 28: Long-term interests in associates and joint ventures***

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the Group's interim condensed consolidated financial information.

#### ***IFRIC Interpretation 23 Uncertainty over Income Tax Treatment***

IFRIC-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(continued)*

### 2.2 Impact of new and revised International Financial Reporting Standards ("IFRSs") *(continued)*

#### **Annual Improvements 2015–2017 Cycle**

- *IFRS 3 Business Combinations*: Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value. The amendments did not have any impact on the Group's interim condensed consolidated financial information.
- *IFRS 11 Joint Arrangements*: Clarifies that when an entity that participates in (but does not have joint control of) a joint operation obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation. The amendments did not have any impact on the Group's interim condensed consolidated financial information.
- *IAS 12 Income Taxes*: Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividends. The amendments did not have any impact on the Group's interim condensed consolidated financial information.
- *IAS 23 Borrowing Costs*: Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

### 2.3 Issued but not yet effective International Financial Reporting Standards

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

Amendments to IAS1 and IAS 8	<i>Definition of Material</i> <sup>1</sup>
Amendments to IFRS 3	<i>Definition of a Business</i> <sup>1</sup>
IFRS 17	<i>Insurance Contracts</i> <sup>2</sup>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2020

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>3</sup> No mandatory effective date yet determined but available for adoption

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 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 segment of Urban Water Treatment engages in the design, construction, upgrade and operation of WTPs, RWTPs, STPs, WDPs, and in the O&M (operation and maintenance of waste water treatment facilities entrusted by governments);
- (b) the segment of Water Environment Comprehensive Remediation engages in river harnessing and improvement, foul water body treatment, sponge city construction, pipeline network projects and urban comprehensive pipe tunnel; and
- (c) the segment of Rural Water Improvement engages in the construction and operation related to "the Construction of Beautiful Village" such as: waste water treatment, pipeline construction for collecting waste water and rural living environment improvement.

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

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

Segment assets exclude investment properties, unallocated intangible assets, unallocated deferred tax assets, unallocated prepayments, other receivables and other assets, unallocated pledged deposits, unallocated cash and cash equivalents, and other unallocated head office and corporate assets as these assets are managed on a group basis. Segment liabilities exclude corporate bonds, unallocated other payables and accruals, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 3. OPERATING SEGMENT INFORMATION *(continued)*

For the six-month period ended 30 June 2019 (Unaudited)	Urban Water Treatment RMB'000	Water Environment Comprehensive Remediation RMB'000	Rural Water Improvement RMB'000	Total RMB'000
<b>Segment revenue</b>				
Sales to external customers	1,304,366	75,344	32,858	1,412,568
	1,304,366	75,344	32,858	1,412,568
<b>Segment results</b>	360,487	62,349	5,883	428,719
<i>Reconciliation:</i>				
Unallocated income and gains				37,716
Share of loss of unallocated associates				(4,702)
Share of profit of an unallocated joint venture				156
Corporate and other unallocated expenses				(36,276)
Unallocated finance costs				(164,690)
Profit before tax for the period				260,923
<b>Other segment information</b>				
Share of profit of associates	–	703	–	703
Share of loss of unallocated associates				(4,702)
Share of profit and loss of joint ventures	(544)	1,760	–	1,216
Share of profit of an unallocated joint venture				156
Depreciation and amortization	25,597	513	–	26,110
Unallocated depreciation and amortization				3,959
Total depreciation and amortization				30,069
<b>At 30 June 2019 (Unaudited)</b>				
<b>Segment assets</b>	12,622,213	1,545,714	478,748	14,646,675
<i>Reconciliation:</i>				
Corporate and other unallocated assets				1,681,489
Total assets				16,328,164
<b>Segment liabilities</b>	9,387,530	599,245	391,014	10,377,789
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				1,551,006
Total liabilities				11,928,795
<b>Other segment information</b>				
Investments in associates	–	228,004	–	228,004
Unallocated investments in associates				16,549
Investments in joint ventures	75,941	51,915	–	127,856
Unallocated investment in a joint venture				13,920
Capital expenditure	209,513	–	32,858	242,371
Unallocated amounts				24
Total capital expenditure*				242,395

\* Capital expenditure consists of additions to property, plant and equipment and intangible assets during the six-month period ended 30 June 2019.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 3. OPERATING SEGMENT INFORMATION *(continued)*

For the six-month period ended 30 June 2018 (Unaudited)	Urban Water Treatment RMB'000	Water Environment Comprehensive Remediation RMB'000	Rural Water Improvement RMB'000	Total RMB'000
<b>Segment revenue</b>				
Sales to external customers	1,221,181	351,099	35,207	1,607,487
	1,221,181	351,099	35,207	1,607,487
<b>Segment results</b>	370,352	37,802	6,219	414,373
<i>Reconciliation:</i>				
Unallocated income and gains				23,382
Share of loss of associates				(3,491)
Corporate and other unallocated expenses				(53,095)
Unallocated finance costs				(127,826)
Profit before tax for the period				253,343
<b>Other segment information</b>				
Share of profit and loss of associates	2,818	(2,940)	–	(122)
Share of loss of unallocated associates				(3,491)
Share of loss of joint ventures	(766)	(1,117)	–	(1,883)
Losses on disposal of an associate	(8,154)	–	–	(8,154)
Depreciation and amortization	24,243	83	–	24,326
Unallocated depreciation and amortization				2,657
Total depreciation and amortization				26,983
<b>At 31 December 2018 (Audited)</b>				
<b>Segment assets</b>	12,321,734	1,542,337	477,392	14,341,463
<i>Reconciliation:</i>				
Corporate and other unallocated assets				2,183,764
Total assets				16,525,227
<b>Segment liabilities</b>	8,942,306	654,519	390,707	9,987,532
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				2,216,022
Total liabilities				12,203,554
<b>Other segment information</b>				
Investments in associates	–	200,591	–	200,591
Unallocated investments in associates				21,252
Investments in joint ventures	76,484	50,155	–	126,639
Unallocated investments in joint ventures				13,764
Capital expenditure	10,272	44	35,212	45,528
Unallocated amounts				15,509
Total capital expenditure*				61,037

\* Capital expenditure consists of additions to property, plant and equipment and intangible assets during the six-month period ended 30 June 2018.



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 4. REVENUE

Revenue represents: (1) an appropriate proportion of contract revenue of construction contracts under Build-Operate-Transfer (the "BOT") arrangements, Engineering Procurement Construction (the "EPC") arrangements and other construction service projects, net of tax and government surcharges; (2) the revenue from operation of WTPs, RWTPs, WDPs, STPs or other municipal infrastructures under BOT arrangements, Transfer-Operate-Transfer (the "TOT") arrangements, and the provision of Operation and Maintenance services; and (3) financial income on financial receivables. The amount of each significant category of revenue during the six-month period ended 30 June 2019 is as follows:

	For the six-month period ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue from construction services	679,773	931,276
Revenue from operation services	433,714	404,485
Financial income	299,081	271,726
	<b>1,412,568</b>	1,607,487

Revenue from construction and operation services derived from waste water treatment, reclaimed water treatment, water distribution and sludge treatment services as well as financial income are recognised over time. For sales of water purifying material in operation services, revenue is recognised at a point in time.

The aggregated revenue from construction services, operation services and financial income derived in mainland China amounted to RMB1,412,568,000 and RMB1,607,487,000 for the six months ended 30 June 2019 and 2018, respectively.

## 5. OTHER INCOME AND GAINS

	For the six-month period ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Government grants (note a)	21,539	53,566
Investment income	17,420	126
Interest income from loans to third parties	11,478	8,475
Dividend income from equity investments designated at fair value through other comprehensive income	9,143	14,325
Interest income from loans to an associate and joint ventures	3,622	2,041
Bank interest income	2,665	3,819
Gain on disposal of a subsidiary	1,595	–
Rental income less depreciation of investment properties	259	282
Foreign exchange differences, net	–	4,291
Others	493	539
	<b>68,214</b>	87,464

Note:

- (a) Government grants primarily represented the value-added tax refund and the environmental protection funds for environmental technological improvements granted by government authorities. Certain environmental protection funds related to the upgrading of WTPs granted by government authorities are recognised as deferred income that is recognised in profit or loss on a systematic basis over the expected upgrade interval cycle. There are no unfulfilled conditions or contingencies relating to other government grants.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	For the six-month period ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Cost for construction services		527,258	801,206
Cost for operation services		290,045	248,375
<b>Total of cost of sales</b>		<b>817,303</b>	1,049,581
Depreciation of property, plant and equipment		5,625	5,931
Depreciation of investment properties		346	351
Depreciation of right-of-use assets		1,562	–
Amortisation of service concession intangible assets		22,379	20,545
Amortisation of other intangible assets		157	156
Interest expense on lease liabilities		155	–
Write-off of impairment of trade receivables		–	2,567
Impairment of trade receivables and other receivables		1,209	444
Auditor's remuneration		650	650
Employee benefit expense (including directors' and chief executive's remuneration):			
Wages, salaries and allowances, social securities and benefits		108,134	119,155
Pension scheme contributions (defined contribution scheme)		11,190	12,294
<b>Total employee benefit expense</b>		<b>119,324</b>	131,449
Losses on disposal of an associate		–	8,154

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 7. FINANCE COSTS

	For the six-month period ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Interest on bank and other borrowings	205,492	162,192
Interest on corporate bonds	68,034	61,847
Interest on lease liabilities	155	–
	<b>273,681</b>	224,039

## 8. INCOME TAX EXPENSE

Pursuant to The PRC Enterprise Income Tax Law Implementing Regulations (中華人民共和國企業所得稅法實施條例), most of the subsidiaries established in the PRC, engaged in the operations of 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 of generating operating revenue (the “3+3 Tax Holiday”). As at 30 June 2019, these subsidiaries were already qualified for the 3+3 Tax Holiday or in the process of preparation and submission of the required documents to the respective tax authorities to apply for the 3+3 Tax Holiday.

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

Under the relevant PRC Enterprise 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 for the six-month period ended 30 June 2019 (six-month period ended 30 June 2018: Nil).

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 8. INCOME TAX EXPENSE *(continued)*

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

	For the six-month period ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Current income tax		
— Mainland China	30,204	35,390
Deferred income tax	41,783	32,440
Income tax charge for the period	71,987	67,830

## 9. 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 period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period.

The diluted earnings per share was calculated by dividing the profit for the six-month period 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 period.

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

	For the six-month period ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Earnings:		
Profit for the period attributable to ordinary equity holders of the parent	183,595	183,660
Number of shares:		
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	2,044,676,000	2,057,040,000

The Company did not issued any new shares during the six-month period ended 30 June 2019.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 10. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2019, the Group acquired property, plant and equipment with an aggregate cost amounting to approximately RMB557,000 (six-month period ended 30 June 2018: RMB2,687,000).

The property, plant and equipment with a net book value of approximately RMB1,039,000 were disposed of by the Group during the six-month period ended 30 June 2019 (six-month period ended 30 June 2018: RMB807,000), resulting in a net loss on disposal of approximately RMB72,000 (six-month period ended 30 June 2018: RMB85,000).

## 11. FINANCIAL RECEIVABLES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Receivables for service concession arrangements	7,957,122	7,831,580
Portion classified as current	(1,471,544)	(1,400,911)
Non-current portion	6,485,578	6,430,669

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

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. 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 30 June 2019, the Group's financial receivables with a carrying value of RMB5,073,372,000 (31 December 2018: RMB5,157,007,000) were pledged to secure certain bank and other borrowings granted to the Group (note 14).



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 12. TRADE AND BILLS RECEIVABLES

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.

An ageing analysis of the Group's trade and bills receivables, based on the invoice date or billing date and net of provision for impairment of trade receivables, at the end of the reporting period is as follows:

	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
Within 3 months	<b>379,404</b>	330,454
4 to 6 months	<b>168,656</b>	227,463
7 to 12 months	<b>248,045</b>	173,287
Over 12 months	<b>588,968</b>	564,795
	<b>1,385,073</b>	1,295,999

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

	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
Within 3 months	<b>541,346</b>	564,125
4 months to 6 months	<b>423,838</b>	341,914
7 months to 12 months	<b>146,423</b>	280,956
Over 12 months	<b>527,351</b>	451,270
	<b>1,638,958</b>	1,638,265

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 14. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2019			31 December 2018		
	Effective interest rate (%)	Maturity	RMB'000 (Unaudited)	Effective interest rate (%)	Maturity	RMB'000 (Audited)
<b>Current</b>						
Bank loans						
— unsecured	8.00	2020	15,000	—	—	—
Bank loans — secured	3.92–8.47	2019–2020	2,097,975	4.35–8.00	2019	1,902,750
Other loans — unsecured	16.80	2020	4,900	—	—	—
Current portion of long term other loans — secured	4.75–6.56	2019–2020	140,387	5.78–9.90	2019	137,164
Current portion of long term bank loans — secured	5.78–9.90	2019–2020	1,263,288	4.75–6.56	2019	971,829
Current portion of lease liabilities	4.91	2019–2020	3,214	—	—	—
			<b>3,524,764</b>			<b>3,011,743</b>
<b>Non-current</b>						
Long term other loans — unsecured	1.20–7.50	2022–2026	340,000	1.20	2026	30,000
Long term other loans — secured	2.80–9.90	2020–2026	539,857	2.80–9.90	2020–2026	610,862
Long term bank loans — secured	4.75–6.56	2020–2045	3,130,879	4.75–6.56	2020–2045	3,443,315
Long term lease liabilities	4.91	2020–2039	1,849	—	—	—
			<b>4,012,585</b>			<b>4,084,177</b>
			<b>7,537,349</b>			<b>7,095,920</b>
Interest-bearing bank and other borrowings denominated in						
— RMB			7,462,931			7,021,117
— Hong Kong dollars			43,983			43,810
— United States dollars			30,435			30,993
			<b>7,537,349</b>			<b>7,095,920</b>

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 14. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

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

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Property, plant and equipment	18,188	19,102
Financial receivables (note 11)	5,073,372	5,157,007
Trade and bills receivables	513,045	350,253
Pledged deposits	–	5,000
Service concession intangible assets	144,965	241,988
Contract assets	1,101,083	1,109,687

The Group's borrowings of RMB1,579,348,000 (31 December 2018: RMB1,850,369,000) were guaranteed by the investments in certain subsidiaries.

The Group's borrowings of RMB1,840,981,000 (31 December 2018: RMB1,364,477,000) were guaranteed by the second largest shareholder (note 19).

## 15. DIVIDEND

The board of directors does not recommend payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

## 16. OPERATING LEASE ARRANGEMENTS

### As lessor

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

At 30 June 2019 and 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within one year	1,191	1,260
In the second to fifth years, inclusive	423	983
	1,614	2,243

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 17. CONTINGENT LIABILITIES

As at 30 June 2019 the Group did not have any significant contingent liabilities (31 December 2018: Nil).

## 18. COMMITMENTS

The Group had the following commitments:

### (a) Capital commitments

The Group had the following capital commitments at the end of each reporting period:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Contracted, but not provided for	218,834	303,306

### (b) The Group had the following commitments with respect of service concession arrangements at the end of each reporting period:

#### Group

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Contracted, but not provided for	3,204,701	3,218,966

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 19. 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 period:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Certain expenses of the Group paid by non-controlling shareholders of:		
Huizhou Kangda	–	37,402
Pingdingshan City Bay	825	–
Acquisition considerations paid by the Group to non-controlling shareholders of:		
Five Guohuan Subsidiaries* (i)	4,040	2,385
Certain expenses paid by the Group for non-controlling shareholders of:		
Xinzhongzhou Water and Xinzheng Xinkang	500	1,309
Five Guohuan Subsidiaries* (i)	1,536	29
Jiaoling Kangda	–	506
Loans to an associate and joint ventures:		
Zhongyuan Kangda	–	85,000
Gaomi Kangrui	–	15,892
Jiangxi Kanggan	–	6,003
Services provided to associates and joint ventures:		
Zhongyuan Kangda	6,983	143,017
Leping Hehu	10,188	–
Fuzhou Fuhe	–	48,690
Gaomi Kangrui	432	157
Jiangxi Kanggan	591	8,515
Services provided by an associate:		
Eastern Sludge Treatment	–	17
Services provided by a non-controlling shareholder of:		
Jiaoling Kangda	–	1,149



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 19. RELATED PARTY TRANSACTIONS (continued)

### (a) (continued)

- \* (i) Dong'e County Guohuan Sewage Treatment Co., Ltd. (東阿縣國環污水處理有限公司), Liaocheng Jiaming Guohuan Sewage Treatment Co., Ltd. (聊城嘉明國環污水處理有限公司), Linqing City Guohuan Sewage Treatment Co., Ltd. (臨清市國環污水處理有限公司), Jining Guohuan Sewage Treatment Co., Ltd. (濟寧市國環污水處理有限公司), and Shen County Guohuan Sewage Treatment Co., Ltd. (莘縣國環污水處理有限公司) are collectively known as "Five Guohuan subsidiaries".

The Group's borrowings of RMB1,840,981,000 (31 December 2018: RMB1,364,477,000) were guaranteed by the second largest shareholder (note 14).

### (b) Outstanding balances with related parties

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Amounts due to non-controlling shareholders of:		
Five Guohuan subsidiaries	–	59,406
Pingdingshan City Bay	56,216	55,391
Hebi Kangda	12,000	12,000
Jilin Kangda	11,000	11,000
Huizhou Kangda	13,194	47,323
Xinzhongzhou Water and Xinzheng Xinkang	2,510	2,510
Jiaoling Kangda	690	690
Amounts due to an associate:		
Eastern Sludge Treatment	51,396	54,834
Amounts due from non-controlling shareholders of:		
Xinzhongzhou Water and Xinzheng Xinkang	16,594	16,094
Pingdingshan City Bay	10,649	10,649
Five Guohuan subsidiaries	2,955	1,418
Hebi Kangda	2,950	2,950
Weihai Kangda	43	43
Jiaoling Kangda	506	506
Amounts due from associates:		
Zhongyuan Kangda	387,936	380,953
Leping Hehu	48,585	84,966
Amounts due from joint ventures:		
Tianqiyuan	22,575	22,575
Jiangxi Kanggan	3,184	10,892
Gaomi Kangrui	15,981	16,049

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 19. RELATED PARTY TRANSACTIONS *(continued)*

### (c) Compensation of key management personnel of the Group

	For the six-month period ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Short term employee benefits	1,513	919
Equity-settled share option expenses	–	–
Post-employment benefits	5	–
Total compensation paid to key management personnel	1,518	919

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 20. FINANCIAL INSTRUMENTS BY CATEGORY

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

30 June 2019

### Financial assets

	Financial assets at fair value through other comprehensive income		
	Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	357,000	–	357,000
Financial receivables	–	7,957,122	7,957,122
Trade and bills receivables	–	1,385,073	1,385,073
Financial assets included in prepayments, other receivables and other assets	–	813,934	813,934
Pledged deposits	–	224,444	224,444
Cash and cash equivalents	–	150,351	150,351
Other current assets	–	743,324	743,324
	357,000	11,274,248	11,631,248

### Financial liabilities

	Financial liabilities at amortized cost RMB'000	Total RMB'000
Trade and bills payables	1,638,958	1,638,958
Financial liabilities included in other payables and accruals	362,222	362,222
Interest-bearing bank and other borrowings	7,537,349	7,537,349
Corporate bonds	1,478,541	1,478,541
	11,017,070	11,017,070

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 20. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

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

31 December 2018

### Financial assets

	Financial assets at fair value through other comprehensive income		
	Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	489,000	–	489,000
Financial receivables	–	7,831,580	7,831,580
Trade and bills receivables	–	1,295,999	1,295,999
Financial assets included in prepayments, other receivables and other assets	–	779,460	779,460
Pledged deposits	–	179,727	179,727
Cash and cash equivalents	–	976,246	976,246
Other non-current financial assets	–	793,030	793,030
	489,000	11,856,042	12,345,042

### Financial liabilities

	Financial liabilities at amortized cost RMB'000	Total RMB'000
Trade and bills payables	1,638,265	1,638,265
Financial liabilities included in other payables and accruals	478,755	478,755
Interest-bearing bank and other borrowings	7,095,920	7,095,920
Corporate bonds	2,140,499	2,140,499
	11,353,439	11,353,439

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Financial assets:				
Equity investments designated at fair value through other comprehensive income	357,000	489,000	357,000	489,000
Prepayments, other receivables and other assets, non-current portion	305,801	298,564	318,985	304,166
Financial receivables, non-current portion	6,485,578	6,430,669	6,683,206	6,647,255
Other non-current financial assets	–	793,030	–	793,878
	<b>7,148,379</b>	8,011,263	<b>7,359,191</b>	8,234,299
Financial liabilities:				
Trade and bills payables, non-current portion	4,732	9,396	4,511	8,957
Interest-bearing bank and other borrowings, non-current portion	4,012,585	4,084,177	4,020,930	4,162,606
Non-current corporate bonds	1,467,147	1,469,105	1,467,147	1,469,105
	<b>5,484,464</b>	5,562,678	<b>5,492,588</b>	5,640,668



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

*(continued)*

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, other receivables and other assets, 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 measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, 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 valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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 of those financial assets and liabilities measured at fair value:

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

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(continued)

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2019

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at fair value through other comprehensive income	–	357,000	–	357,000

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at fair value through other comprehensive income	–	489,000	–	489,000

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(continued)

### Fair value hierarchy (continued)

Assets for which fair values are disclosed:

As at 30 June 2019

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Prepayments, other receivables and other assets, non-current portion	–	–	318,985	318,985
Financial receivables, non-current portion	–	–	6,683,206	6,683,206
	–	–	7,002,191	7,002,191

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Prepayments, other receivables and other assets, non-current portion	–	–	304,166	304,166
Financial receivables, non-current portion	–	–	6,647,255	6,647,255
Other non-current financial assets	–	–	793,878	793,878
	–	–	7,745,299	7,745,299

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(continued)

### Fair value hierarchy (continued)

Liabilities for which fair values are disclosed:

As at 30 June 2019

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Trade and bills payables, non-current portion	–	–	4,511	4,511
Interest-bearing bank and other borrowings, non-current portion	–	–	4,020,930	4,020,930
Corporate bonds	–	–	1,467,147	1,467,147
	–	–	5,492,588	5,492,588

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Trade and bills payables, non-current portion	–	–	8,957	8,957
Interest-bearing bank and other borrowings, non-current portion	–	–	4,162,606	4,162,606
Non-current corporate bonds	–	–	1,469,105	1,469,105
	–	–	5,640,668	5,640,668

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

## 22. SUBSEQUENT EVENTS

No significant events took place subsequent to 30 June 2019.

## 23. APPROVAL OF ISSUANCE OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were authorised for issue by the board of directors on 30 August 2019.