KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED
康達國際環保有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 6136)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS

- Revenue was approximately RMB2,815.2 million, and gross profit was approximately RMB1,162.6 million for the year ended 31 December 2019.
- Profit attributable to owners of the parent was approximately RMB376.9 million, representing an increase of approximately 24% as compared to the previous corresponding period.
- Basic and diluted earnings per share attributable to ordinary equity holders of the parent for the year were RMB18.54 cents.
- For the year ended 31 December 2019, the actual aggregate processing volume reached 1,027.5 million tonnes.
- The Board did not recommend payment of the final dividend for the year ended 31 December 2019.

The board (the "Board") of directors (the "Directors") of Kangda International Environmental Company Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively as the "Group") for the year ended 31 December 2019 together with the comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	**2019** ***RMB'000***	2018 *RMB'000*
REVENUE	*3*	**2,815,203**	3,021,327
Cost of sales		**(1,652,600)**	(1,928,142)
Gross profit		**1,162,603**	1,093,185
Other income and gains	*4*	**182,028**	218,520
Selling and distribution expenses		**(4,958)**	(14,229)
Administrative expenses		**(243,769)**	(284,508)
Other expenses		**(30,354)**	(50,809)
Finance costs	*5*	**(557,541)**	(498,570)
Share of profits and losses of:			
Associates		**1,401**	(5,595)
Joint ventures		**431**	(2,303)
PROFIT BEFORE TAX	*6*	**509,841**	455,691
Income tax expense	*7*	**(125,770)**	(145,801)
PROFIT FOR THE YEAR		**384,071**	309,890
Attributable to:			
Owners of the parent	*8*	**376,868**	303,350
Non-controlling interests		**7,203**	6,540
		384,071	309,890
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic for profit for the year (expressed in RMB per share)	*8*	**18.54 cents**	14.84 cents
Diluted for profit for the year (expressed in RMB per share)	*8*	**18.54 cents**	N/A

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)
Year ended 31 December 2019

	Notes	**2019** **RMB'000**	2018 RMB'000
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		**(126,000)**	(132,000)
Income tax effect		**18,900**	19,800
		(107,100)	(112,200)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**(107,100)**	(112,200)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(107,100)**	(112,200)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**276,971**	197,690
Attributable to:			
Owners of the parent		**269,768**	191,150
Non-controlling interests		**7,203**	6,540
		276,971	197,690

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**134,672**	143,167
Investment properties		**9,827**	10,524
Right-of-use assets		**3,261**	–
Investments in associates		**378,243**	221,843
Investments in joint ventures		**88,920**	140,403
Equity investments designated at fair value through other comprehensive income		**363,000**	489,000
Service concession intangible assets		**802,417**	737,174
Other intangible assets		**3,268**	3,554
Goodwill		**60,219**	60,219
Financial receivables	9	**7,513,981**	6,430,669
Deferred tax assets		**90,629**	90,383
Prepayments, other receivables and other assets		**231,502**	427,855
Contract assets	10	**2,027,135**	2,281,930
Other non-current financial assets		**–**	793,030
Total non-current assets		**11,707,074**	11,829,751
CURRENT ASSETS			
Inventories		**13,530**	14,556
Contract assets	10	**222,236**	209,474
Financial receivables	9	**1,643,994**	1,400,911
Trade and bills receivables	11	**1,363,602**	1,295,999
Prepayments, other receivables and other assets		**608,392**	618,563
Pledged deposits		**163,167**	179,727
Cash and cash equivalents		**225,672**	976,246
Other current financial assets		**750,824**	–
Total current assets		**4,991,417**	4,695,476
CURRENT LIABILITIES			
Trade and bills payables	12	**1,779,354**	1,628,869
Other payables and accruals		**342,121**	506,968
Deferred income		**–**	19,650
Interest-bearing bank and other borrowings	13	**3,222,399**	3,011,743
Corporate bonds	14	**907,423**	671,394
Tax payable		**30,829**	28,807
Total current liabilities		**6,282,126**	5,867,431
NET CURRENT LIABILITIES		**(1,290,709)**	(1,171,955)
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,416,365**	10,657,796

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Trade payables	*12*	**3,624**	9,396
Interest-bearing bank and other borrowings	*13*	**4,410,206**	4,084,177
Corporate bonds	*14*	**569,366**	1,469,105
Deferred income		**–**	10,333
Other payables and accruals		**18,447**	–
Deferred tax liabilities		**820,570**	763,112
Total non-current liabilities		**5,822,213**	6,336,123
Net assets		**4,594,152**	4,321,673
EQUITY			
Equity attributable to owners of the parent			
Share capital		**16,143**	16,143
Reserves		**4,378,959**	4,098,510
		4,395,102	4,114,653
Non-controlling interests		**199,050**	207,020
Total equity		**4,594,152**	4,321,673

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.1 BASIS OF PREPARATION

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

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

Going concern

As at 31 December 2019, the Group's current liabilities exceeded its current assets by approximately RMB1,290,709,000 (31 December 2018: net current liabilities: RMB1,171,955,000). In addition, the Group has contracted capital commitments of RMB235,333,000 and commitments in respect of service concession arrangements of RMB3,638,436,000. Part of such commitments are expected to be due in the foreseeable future. The Directors have considered the Group has available sources of funds as at the date of approval of these consolidated financial statements, which are as follows:

- Unutilised banking facilities available to the Group that the Directors are confident of them being able to be continuously renewed upon their respective expirations in the foreseeable future based on the Group's past experience and good credit standing;

- Unutilised facilities to issue domestic medium-term notes by the Group as approved by the relevant of the People's Republic of China ("PRC") government authorities;

- Cash inflows arising from the Group's activities subsequent to 31 December 2019; and

- Other available sources of financing from banks, financial institutions and other institutions given the Group's credit history.

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. The Directors 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 31 December 2020. Hence the Directors are of the opinion that it is appropriate to prepare these consolidated financial statements under the going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

1.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

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

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

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

IFRS 16	*Leases*
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRSs 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9 and *Annual Improvements to IFRSs 2015–2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor 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 has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been 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 continued to be reported under IAS 17 and related interpretations.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 16 Leases (continued)

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.

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:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 16 Leases (continued)

Financial impact at 1 January 2019

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

	Increase/ (decrease) *RMB'000*
Assets	
Increase in right-of-use assets	6,387
Increase in total assets	6,387
Liabilities	
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 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	**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 ended on or before 31 December 2019	(1,554)
Lease liabilities as at 1 January 2019	**6,387**

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 financial position or performance of the Group.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (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 financial position or performance of the Group.

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 financial position or performance of the Group.

2. OPERATING SEGMENT INFORMATION

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

(a) the segment of Urban Water Treatment engages in the design, construction, upgrade and operation of waste water treatment plants (“WTPs”), reclaimed water treatment plants (“RWTPs”), sludge treatment plants (“STPs”), water distribution plants (“WDPs”), and in the operation and maintenance of waste water treatment facilities entrusted by governments (“O&M”);

(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 construction of 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, share of profit and loss of unallocated associates and a joint venture, unallocated finance costs as well as corporate and other unallocated expenses are excluded from such measurement.

2. **OPERATING SEGMENT INFORMATION (continued)**

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, equity investments designated at fair value through other comprehensive income, other current financial assets, unallocated intangible assets, unallocated deferred tax assets, unallocated prepayments, other receivables and other assets, pledged deposits, unallocated cash and cash equivalents, unallocated trade and bills receivables, 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, lease liabilities, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

Year ended 31 December 2019	**Urban Water Treatment** *RMB'000*	**Water Environment Comprehensive Remediation** *RMB'000*	**Rural Water Improvement** *RMB'000*	**Total** *RMB'000*
Segment revenue				
Sales to external customers	**2,536,642**	**203,884**	**74,677**	**2,815,203**
	2,536,642	**203,884**	**74,677**	**2,815,203**
Segment results	**672,498**	**101,750**	**13,345**	**787,593**
Reconciliation:				
Unallocated income and gains				**88,769**
Share of profit and loss of unallocated associates				**102**
Share of profit and loss of an unallocated joint venture				**44**
Corporate and other unallocated expenses				**(75,386)**
Unallocated lease-related finance costs				**(312)**
Unallocated finance costs (other than interest on lease liabilities)				**(290,969)**
Profit before tax				**509,841**
Segment assets	**12,986,436**	**1,401,913**	**653,280**	**15,041,629**
Reconciliation:				
Corporate and other unallocated assets				**1,656,862**
Total assets				**16,698,491**
Segment liabilities	**9,383,169**	**567,000**	**542,412**	**10,492,581**
Reconciliation:				
Corporate and other unallocated liabilities				**1,611,758**
Total liabilities				**12,104,339**

2. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2019	Urban Water Treatment *RMB'000*	Water Environment Comprehensive Remediation *RMB'000*	Rural Water Improvement *RMB'000*	Total *RMB'000*
Other segment information				
Investments in associates	–	232,200	–	232,200
Unallocated investments in associates				146,043
Investments in a joint venture	75,112	–	–	75,112
Unallocated investments in a joint venture				13,808
Share of profit and loss of associates	–	1,299	–	1,299
Share of profit and loss of unallocated associates				102
Loss on disposal of a joint venture	–	(7,414)	–	(7,414)
Share of profit and loss of joint ventures	(1,372)	1,759	–	387
Share of profit and loss of an unallocated joint venture				44
Impairment losses recognised in the statement of profit or loss, net	(31)	(5,520)	–	(5,551)
Depreciation and amortisation	51,765	124	61	51,950
Unallocated depreciation and amortisation				7,847
Total depreciation and amortisation				59,797
Capital expenditure	284,262	43	75,190	359,495
Unallocated amounts				57
Total capital expenditure*				359,552

* Capital expenditure consists of additions to property, plant and equipment and service concession contract assets.

2. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2018	Urban Water Treatment *RMB'000*	Water Environment Comprehensive Remediation *RMB'000*	Rural Water Improvement *RMB'000*	Total *RMB'000*
Segment revenue				
Sales to external customers	2,462,391	457,330	101,606	3,021,327
	2,462,391	457,330	101,606	3,021,327
Segment results	639,419	66,969	18,254	724,642
Reconciliation:				
Unallocated income and gains				81,759
Share of profit and loss of unallocated associates				(9,076)
Share of profit and loss of unallocated joint ventures				(370)
Corporate and other unallocated expenses				(95,442)
Unallocated finance costs				(245,822)
Profit before tax				455,691
Segment assets	12,321,734	1,542,337	477,392	14,341,463
Reconciliation:				
Corporate and other unallocated assets				2,183,764
Total assets				16,525,227
Segment liabilities	8,942,306	654,519	390,707	9,987,532
Reconciliation:				
Corporate and other unallocated liabilities				2,216,022
Total liabilities				12,203,554

2. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2018	Urban Water Treatment *RMB'000*	Water Environment Comprehensive Remediation *RMB'000*	Rural Water Improvement *RMB'000*	Total *RMB'000*
Other segment information				
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
Share of profit and loss of associates	2,818	663	–	3,481
Share of profit and loss of unallocated associates				(9,076)
Losses on disposal of an associate	(8,154)	–	–	(8,154)
Share of profit and loss of joint ventures	(4,940)	3,007	–	(1,933)
Share of profit and loss of unallocated joint ventures				(370)
Impairment losses recognised in the statement of profit or loss, net	(31)	(22,902)	–	(22,933)
Depreciation and amortisation	48,629	124	–	48,753
Unallocated depreciation and amortisation				4,968
Total depreciation and amortisation				53,721
Capital expenditure	135,983	55	101,605	237,643
Unallocated amounts				491
Total capital expenditure*				238,134

* Capital expenditure consists of additions to property, plant and equipment and service concession contract assets.

Geographical information

(a) Revenue from external customers

	2019 *RMB'000*	2018 *RMB'000*
Mainland China	**2,815,203**	3,021,327

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

(b) Non-current assets

	2019 *RMB'000*	2018 *RMB'000*
Mainland China	**11,616,445**	11,739,368

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

2. OPERATING SEGMENT INFORMATION (continued)

Information about major customers

The revenue derived from the Group's two largest customers during the year is as follows:

Year ended 31 December 2019

	Urban Water Treatment *RMB'000*	**Total** *RMB'000*
Customer B	**259,106**	**259,106**
Customer C	**225,022**	**225,022**
	484,128	**484,128**

Year ended 31 December 2018

	Urban Water Treatment *RMB'000*	Total *RMB'000*
Customer A	255,950	255,950
Customer B	238,796	238,796
	494,746	494,746

3. REVENUE

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

The Group carries out construction works of other municipal infrastructure under Engineering, Procurement and Construction ("EPC") arrangements and agrees with EPC customers to enter into a settled agreement for the construction work during the construction.

Revenue represents: (i) an appropriate proportion of contract revenue of construction contracts under BOT arrangements, EPC arrangements and other construction service projects, net of tax and government surcharges; (ii) the revenue from operation of WTPs, RWTPs, WDPs, STPs or other municipal infrastructure under BOT arrangements and TOT arrangements and the provision of Operation and Maintenance services; and (iii) financial income on financial receivables. The amounts of each of the significant categories of revenue during the year are as follows:

3. REVENUE (continued)

Revenue from contracts with customers

	2019 *RMB'000*	2018 *RMB'000*
Revenue from construction services	**1,312,915**	1,654,185
Revenue from operating services	**894,002**	819,684
Financial income	**608,286**	547,458
	2,815,203	3,021,327

(a) Disaggregated revenue information

For the year ended 31 December 2019

Segments	**Urban Water Treatment** *RMB'000*	**Water Environment Comprehensive Remediation** *RMB'000*	**Rural Water Improvement** *RMB'000*	**Total** *RMB'000*
Revenue from contracts with customers	**2,536,642**	**203,884**	**74,677**	**2,815,203**
Geographical markets				
Mainland China	**2,536,642**	**203,884**	**74,677**	**2,815,203**
Total revenue from contracts with customers	**2,536,642**	**203,884**	**74,677**	**2,815,203**

For the year ended 31 December 2018

Segments	Urban Water Treatment *RMB'000*	Water Environment Comprehensive Remediation *RMB'000*	Rural Water Improvement *RMB'000*	Total *RMB'000*
Revenue from contracts with customers	2,462,391	457,330	101,606	3,021,327
Geographical markets				
Mainland China	2,462,391	457,330	101,606	3,021,327
Total revenue from contracts with customers	2,462,391	457,330	101,606	3,021,327

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

(b) Performance obligations

The aggregate amount of the transaction prices allocated to the performance obligations of BOT and TOT arrangements that are unsatisfied (or partially unsatisfied) as at 31 December 2019 was RMB36 billion. The performance obligations expected to be recognised in more than one year relate to the services to be performed in respect of the BOT and TOT arrangements. The amounts disclosed above do not include variable consideration which is constrained.

4. OTHER INCOME AND GAINS

	2019 *RMB'000*	2018 *RMB'000*
Government grants*	**75,120**	119,365
Investment income from other financial assets	**62,910**	4,841
Interest income from loans to third parties	**20,658**	40,302
Dividend income from equity investments at fair value through other comprehensive income	**9,143**	14,325
Interest income from loans to an associate and joint ventures	**6,914**	5,970
Bank interest income	**4,204**	7,517
Gain on disposal of subsidiaries	**–**	23,192
Rental income less depreciation of investment properties	**508**	510
Others	**2,571**	2,498
	182,028	218,520

* 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 these grants.

5. FINANCE COSTS

	2019 *RMB'000*	2018 *RMB'000*
Interest-bearing bank and other borrowings	**431,518**	364,893
Interest on corporate bonds	**125,711**	133,677
Interest on lease liabilities	**312**	–
	557,541	498,570

6. PROFIT BEFORE TAX

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

	Notes	**2019**	2018
		RMB'000	*RMB'000*
Cost for construction services		**1,046,610**	1,402,595
Cost for operation services		**605,990**	525,547
Total cost of services		**1,652,600**	1,928,142
Depreciation of property, plant and equipment		**10,897**	11,619
Depreciation of right-of-use assets		**3,126**	–
Amortisation of service concession intangible assets		**44,757**	41,090
Amortisation of other intangible assets		**315**	310
Loss allowance for impairment of trade receivables	*11*	**3,493**	22,902
Loss allowance for impairment of other receivables		**2,058**	31
Minimum lease payments under operating leases for buildings		**4,992**	7,235
Lease payments not included in the measurement of lease liabilities		**1,582**	–
Auditor's remuneration		**3,000**	3,000
Employee benefit expense (including directors' remuneration):			
Wages, salaries and allowances, social securities and benefits		**222,176**	238,455
Pension scheme contributions (defined contribution scheme)		**20,197**	25,374
Equity-settled share option expenses		**9,158**	–
Total employee benefit expense		**251,531**	263,829
Operating lease income		**(1,210)**	(1,212)
Less: Depreciation of investment properties		**702**	702
Rental income less depreciation of investment properties	*4*	**(508)**	(510)
Bank interest income	*4*	**(4,204)**	(7,517)
Government grants	*4*	**(75,120)**	(119,365)
Interest income from loans to third parties	*4*	**(20,658)**	(40,302)
Interest income from loans to an associate and joint ventures	*4*	**(6,914)**	(5,970)
Investment income from other financial assets	*4*	**(62,910)**	(4,841)
Loss on disposal of items of property, plant and equipment, net		**185**	166
Loss/(gain) on disposal of subsidiaries		**13,691**	(23,192)
Loss on disposal of a joint venture		**7,414**	–
Foreign exchange differences, net		**1,222**	12,425

7. INCOME TAX EXPENSE

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

	2019	2018
	RMB'000	*RMB'000*
Current		
— Mainland China	**41,227**	73,213
Deferred	**84,543**	72,588
Total tax charge for the year	**125,770**	145,801

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,032,385,000 (2018: 2,044,676,000) in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

	2019	2018
	RMB'000	*RMB'000*
Earnings:		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	**376,868**	303,350

	2019	2018
	Number of shares	*Number of shares*
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,032,385,000**	2,044,676,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	**589,000**	–
	2,032,974,000	2,044,676,000

9. FINANCIAL RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Receivables for service concession arrangements	**9,157,975**	7,831,580
Portion classified as current assets	**(1,643,994)**	(1,400,911)
Non-current portion	**7,513,981**	6,430,669

Receivables for service concession arrangements arose from the service concession contracts to build and operate WTPs 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 the Grantors in respect of the Group's service concession arrangements. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2019, the Group's financial receivables with a carrying value of RMB5,632,127,000 (2018: RMB5,157,007,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 13).

10. CONTRACT ASSETS

	31 December 2019	31 December 2018
	RMB'000	*RMB'000*
Contract assets arising from:		
Construction services	**2,249,371**	2,491,404
	2,249,371	2,491,404

Contract assets are initially recognised for revenue earned from construction services as the receipt of consideration is conditional on successful completion of construction, respectively. Included in contract assets for construction services are retention receivables. Upon completion of installation or construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables or financial receivables. The decrease in contract assets in 2019 was mainly due to the completion of construction services.

During the year ended 31 December 2019, nil (2018: Nil) was recognised as an allowance for expected credit losses on contract assets.

The expected timing of recovery or settlement for contract assets as at 31 December is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within one year	**222,236**	209,474
After one year	**2,027,135**	2,281,930
Total contract assets	**2,249,371**	2,491,404

10. CONTRACT ASSETS (continued)

At 31 December 2019, the Group's contract assets with a carrying value of RMB966,725,000 (2018: RMB1,109,687,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 13).

Included in the Group's contract assets are amounts due from the Group's associates of RMB35,805,000, which are repayable on credit terms similar to those offered to the major customers of the Group.

11. TRADE AND BILLS RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**1,369,867**	1,298,421
Bills receivable	**1,000**	1,350
Impairment	**(7,265)**	(3,772)
	1,363,602	1,295,999

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

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

Included in the Group's trade receivables are amounts due from the Group's joint ventures and associates of nil (2018: RMB4,890,000) and RMB269,328,000 (2018: RMB380,863,000), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

At 31 December 2019, the Group's trade receivables with a carrying value of RMB564,642,000 (2018: RMB350,253,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 13).

An ageing analysis of the Group's trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**502,100**	330,454
4 to 6 months	**131,001**	226,113
7 to 12 months	**149,550**	173,287
Over 12 months	**579,951**	564,795
	1,362,602	1,294,649

11. TRADE AND BILLS RECEIVABLES (continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019	2018
	RMB'000	*RMB'000*
At beginning of the year	**3,772**	3,076
Impairment losses	**3,493**	22,902
Amount written off as uncollectible	**–**	(22,206)
At end of the year	**7,265**	3,772

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

	Within 3 months	**4 to 6 months**	**7 to 12 months**	**Over 12 months**	**Total**
Expected credit loss rate	0.01%	0.04%	0.05%	1.21%	0.53%
Gross carrying amount (RMB'000)	502,150	131,053	149,625	587,039	1,369,867
Expected credit losses (RMB'000)	50	52	75	7,088	7,265

12. TRADE AND BILLS PAYABLES

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

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

	2019	2018
	RMB'000	*RMB'000*
Bills payable *(note (a))*	**134,745**	167,750
TOT payables *(note (b))*	**3,985**	3,985
Trade payables	**1,644,248**	1,466,530
	1,782,978	1,638,265
Less: Non-current portion	**3,624**	9,396
Current portion	**1,779,354**	1,628,869

12. TRADE AND BILLS PAYABLES (continued)

Notes:

(a) As at 31 December 2019, the Group's bills payable were secured by the pledged deposits amounting to RMB122,713,000 (2018: RMB125,119,000).

(b) TOT payables represented amounts due to the Grantors based on payment schedules set out in the relevant TOT contracts at the end of the year.

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

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**474,841**	564,125
4 to 6 months	**230,818**	341,914
7 to 12 months	**413,261**	280,956
Over 12 months	**664,058**	451,270
	1,782,978	1,638,265

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

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2019			1 January 2019	31 December 2018		
	Effective interest rate (%)	**Maturity**	***RMB'000***	*RMB'000*	Effective interest rate (%)	Maturity	*RMB'000*
Current							
Lease liabilities	**4.91**	**2020**	**1,988**	3,207	–	–	–
Bank loans — unsecured	**4.87–8.00**	**2020**	**285,000**	–	–	–	–
Bank loans — secured	**3.92–8.47**	**2020**	**1,964,975**	1,902,750	4.35–8.00	2019	1,902,750
Other loans — unsecured	**4.15**	**2020**	**4,000**	–	–	–	–
Current portion of long term other loans — secured	**5.78–9.90**	**2020**	**241,318**	137,164	5.78–9.90	2019	137,164
Current portion of long term bank loans — secured	**4.75–6.56**	**2020**	**725,118**	971,829	4.75–6.56	2019	971,829
			3,222,399	3,014,950			3,011,743

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

	31 December 2019			1 January 2019	31 December 2018		
	Effective interest rate (%)	**Maturity**	***RMB'000***	*RMB'000*	Effective interest rate (%)	Maturity	*RMB'000*
Non-current							
Lease liabilities	**4.91**	**2021–2039**	**1,950**	3,180	–	–	–
Long term other loans — unsecured	**1.20–7.50**	**2021–2026**	**236,105**	30,000	1.20	2026	30,000
Long term other loans — secured	**2.80–9.90**	**2021–2026**	**887,959**	610,862	2.80–9.90	2020–2026	610,862
Long term bank loans — secured	**4.75–6.56**	**2021–2045**	**3,284,192**	3,443,315	4.75–6.56	2020–2045	3,443,315
			4,410,206	4,087,357			4,084,177
			7,632,605	7,102,307			7,095,920

	31 December 2019	31 December 2018
Interest-bearing bank and other borrowings denominated in		
— RMB	**7,564,099**	7,021,117
— Hong Kong dollars	**38,071**	43,810
— United States dollars	**30,435**	30,993
	7,632,605	7,095,920

	2019 ***RMB'000***	2018 *RMB'000*
Analysed into:		
Interest-bearing bank and other borrowings repayable:		
Within one year	**3,222,399**	3,011,743
In the second year	**814,596**	864,717
In the third to fifth years, inclusive	**1,994,739**	1,801,130
Beyond five years	**1,600,871**	1,418,330
	7,632,605	7,095,920

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

	2019 ***RMB'000***	2018 *RMB'000*
Property, plant and equipment	**17,274**	19,102
Financial receivables *(note 9)*	**5,632,127**	5,157,007
Trade and bills receivables *(note 11)*	**564,642**	350,253
Pledged deposits	**8,100**	5,000
Service concession intangible assets	**504,100**	241,988
Contract assets *(note 10)*	**966,725**	1,109,687

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

The Group's interest-bearing bank and other borrowings of RMB2,161,298,000 (2018: RMB1,850,369,000) were guaranteed by the Company's investments in certain subsidiaries.

The Group's interest-bearing bank and other borrowings of RMB1,967,485,000 (2018: RMB1,364,477,000) were secured by the second largest shareholder.

14. CORPORATE BONDS

As at 31 December 2019, the carrying amount of bonds issued on 13 June 2018 by Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd. ("Chongqing Kangda"), an indirectly wholly-owned subsidiary of the Company, was RMB296,746,000 with a maturity date on 13 June 2021 and an interest rate of 7.5% per annum.

As at 31 December 2019, the carrying amount of bonds issued on 18 December 2015 by Chongqing Kangda was RMB891,429,000, with a maturity date on 18 December 2022 and an interest rate of 7.0% per annum (raised from 5.5%). According to the resolution of the bondholders' meeting, the redemption period would be from January to April 2020.

On 10 August 2018, the Group received a net cash amount of RMB319,000,000 through the issuance of asset-backed securities (the "ABS") of RMB360,000,000 in the Shanghai Stock Exchange bearing interest at the rate of 7.5% per annum. As at 31 December 2019, the carrying amount of the ABS was RMB288,613,000.

	2019	2018
	RMB'000	*RMB'000*
Unsecured short term corporate bonds	**907,423**	671,394
Unsecured long term corporate bonds	**569,366**	1,469,105
	1,476,789	2,140,499

15. EVENTS AFTER THE REPORTING PERIOD

The novel coronavirus disease 2019 ("COVID-19") was epidemic continuously spread in the PRC and even the world in early 2020. It has brought about additional uncertainties in the Group's operating environment and may impact the Group's operations and financial position. The Group has been closely monitoring the impact from the COVID-19 on the Group's businesses and has commenced to put in place various measures. Based on the information currently available, the directors confirm that there has been no material adverse change in the financial or trading position of the Group up to the date of this announcement. However, the actual impacts may differ from these estimates as the situation continues to evolve and further information become available.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the year of 2019, a wholly-owned subsidiary of the China Water Affairs Group Limited ("China Water") acquired approximately 29.52% of the entire issued share capital of the Company from Kangda Holdings Company Limited, and subsequently China Water 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 year ended 31 December 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 the design, construction, upgrade and operation of wastewater treatment plants, reclaimed water treatment plants, sludge treatment plants, water distribution plants, and in the operation and maintenance of wastewater treatment facilities entrusted by governments. The Group's business has covered the overall industry chain in Urban Water Treatment industry by executing contracts of BOT, TOT, Public-Private-Partnership (the "PPP"), Build-Own-Operate (the "BOO"), EPC and O&M.

The scope of Water Environment Comprehensive Remediation includes river harnessing and improvement, foul water body treatment, sponge city construction, pipeline network projects and construction of urban comprehensive pipe tunnel. 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 construction for collecting wastewater and rural living environment improvement. 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 31 December 2019, the Group had entered into a total of 109 service concession arrangements projects, including 102 wastewater treatment plants, 2 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.

Analysis of the Group's projects on hand as at 31 December 2019 is as follows:

	Daily wastewater treatment capacity	**Daily water distribution capacity**	**Daily reclaimed water treatment capacity**	**Daily sludge treatment capacity**	**Total**
(Tonnes)					
In operation	3,461,500	–	40,000	550	3,502,050
Not yet start operation/ Not yet transferred	565,000	180,000	25,000	–	770,000
Total	4,026,500	180,000	65,000	550	4,272,050
(Number of projects)					
In operation	86	–	1	3	90
Not yet start operation/ Not yet transferred	16	2	1	–	19
Total	102	2	2	3	109

	Number of projects	Treatment capacity	Actual processing volume during the year ended 31 December 2019
		(Tonnes/Day)	*(Million Tonnes)*
Wastewater treatment services			
Shandong	43	1,209,500	315.4
Henan	23	1,060,000	332.7
Heilongjiang	6	425,000	126.7
Zhejiang	2	250,000	88.2
Guangdong	4	220,000	14.0
Anhui	3	175,000	42.8
Shanxi	1	150,000	3.6
Jiangsu	6	102,000	27.2
Other provinces/municipalities*	14	435,000	71.5
	102	4,026,500	1,022.1
Water distribution services	2	180,000	–
Reclaimed water treatment services	2	65,000	5.4
Total	106	4,271,500	1,027.5
Sludge treatment services	3	550	–
Total	109	4,272,050	1,027.5

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

1.1.1 Operation Services

As at 31 December 2019, the Group had 86 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 year ended 31 December 2019 reached 3,461,500 tonnes (2018: 3,116,500 tonnes), 40,000 tonnes (2018: 40,000 tonnes), and 550 tonnes (2018: 400 tonnes), respectively. For the year ended 31 December 2019, the annualized utilization rate for wastewater and reclaimed water treatment plants in operation was approximately 83% (2018: 85%). The actual average water treatment tariff for the year ended 31 December 2019 was approximately RMB1.47 per tonne (2018: approximately RMB1.39 per tonne).The actual aggregate processing volume for the year ended 31 December 2019 was 1,027.5 million tonnes, representing a slight increase of 2% with that for the same period last year (2018: 1,004.9 million tonnes).

Total operation revenue of the Group's Urban Water Treatment services recorded for the year ended 31 December 2019 was RMB894.0 million, representing an increase of approximately 9% (2018: RMB819.7 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 year ended 31 December 2019, construction revenue was recognised for 28 projects, including 23 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 year ended 31 December 2019 was RMB1,040.4 million, representing a year-on-year decrease of approximately 5% (2018: RMB1,098.9 million). The corresponding decrease was primarily due to a slight decrease in the number of projects during the main construction period. As at 31 December 2019, the total daily treatment capacity of the service concession arrangements plants, which was still in the construction stage, was 565,000 tonnes, including 360,000 tonnes of wastewater treatment plants, 180,000 tonnes of water distribution plants and 25,000 tonnes of reclaimed water treatment plant.

1.2 Water Environment Comprehensive Remediation

In the year of 2019, the Group combined the divisions and continued to devote efforts to implementing the existing projects of Water Environment Comprehensive Remediation. As at 31 December 2019, the Group had entered into 2 PPP projects and 13 EPC projects in Henan, Guangxi, 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 resources to execute the Water Environment Comprehensive Remediation projects under the contracts of EPC and O&M.

The Group had 14 Water Environment Comprehensive Remediation projects under construction during the year ended 31 December 2019. The projects were mainly located in Henan, Guangxi, Jiangxi, Shandong and other provinces in Mainland China. For the year ended 31 December 2019, total revenue of those projects was RMB203.9 million, representing a year-on-year decrease of approximately 55% (2018: RMB457.3 million). The corresponding decrease was primarily due to the partial completion of the Group's EPC projects.

1.3 Rural Water Improvement

In the year of 2019, the Group implemented 3 projects of Rural Water Improvement which were located in Guangdong and Guizhou provinces in Mainland China. For the year ended 31 December 2019, total revenue of those projects was RMB74.7 million, representing a year-on-year decrease of approximately 26% (2018: RMB101.6 million). The corresponding decrease was primarily because a large portion of the project executed from 2016 approached completion.

FINANCIAL ANALYSIS

Revenue

For the year ended 31 December 2019, the Group recorded a revenue of RMB2,815.2 million, representing a decrease of approximately 7% as compared to the previous corresponding period of RMB3,021.3 million. The decrease was mainly due to the decrease in construction revenue of RMB341.3 million, the increase in operation revenue of RMB74.3 million, and the increase in financial income of RMB60.9 million. The decrease in construction revenue was mainly due to the increase in completion of the EPC projects of Water Environment Comprehensive Remediation services, and the decrease in the number of projects during the main construction of Urban Water Treatment 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 services 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 year ended 31 December 2019 amounted to RMB1,652.6 million, including construction costs of RMB1,046.6 million and operation costs of water treatment plants of RMB606.0 million, and representing a decrease of approximately 14% as compared to the previous corresponding period of RMB1,928.1 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, and the decrease in the number of projects during the main construction of Urban Water Treatment services.

Gross Profit Margin

For the year ended 31 December 2019, gross profit margin was approximately 41%, representing an increase of 5 percentage points as compared to the previous corresponding period of approximately 36%. The increase was mainly due to the higher construction margin recognized when the EPC projects were completed and the increase in the proportion of financial income.

Other Income and Gains

The Group recorded other income and gains of RMB182.0 million for the year ended 31 December 2019, representing a decrease of approximately 17% as compared to the previous corresponding period of RMB218.5 million. The amount for this Reporting Period primarily included government grants of RMB75.1 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税優惠目錄》的通知) (財税[2015] 78號文)) and grants for environmental protection, bank interest income of RMB4.2 million, interest income of RMB20.7 million from loans to third parties, interest income of RMB6.9 million from loans to an associate and joint ventures, dividend income of RMB9.1 million and other investment income of RMB62.9 million.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the year ended 31 December 2019 was RMB5.0 million, representing a climb decrease of approximately 65% as compared to RMB14.2 million in the previous corresponding period, which was a result of stringent management and cost control.

Administrative Expenses

Administrative expenses for the year ended 31 December 2019 was RMB243.8 million, representing a decrease of approximately 14% as compared to the previous corresponding period of RMB284.5 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.

Other Expenses

Other expenses for the year ended 31 December 2019 was RMB30.4 million, representing a climb decrease as compared to the previous corresponding period of RMB50.8 million. The amount for this period primarily included losses on disposal of a joint venture and subsidiaries of RMB21.1 million, impairment of trade receivables and other receivables of RMB5.6 million and losses on foreign exchanges of RMB1.2 million.

Finance Costs

Finance costs for the year ended 31 December 2019 of RMB557.5 million mainly comprised of interests on interest-bearing bank and other borrowings and corporate bonds, representing an increase of approximately 12% as compared to RMB498.6 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 RMB332.7 million and the average interest rate was 6.08%, representing an increase of 0.44 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 profits of associates for the year ended 31 December 2019 was RMB1.4 million, representing a sharply increase as compared to share of losses of associates of RMB5.6 million in the previous corresponding period, primarily due to the increase in share of profits of Zhongyuan Water Group Co., Ltd.* (中原水務集團有限公司).

* *For identification purposes only*

Share of Profits and Losses of Joint ventures

Share of profits of joint ventures for the year ended 31 December 2019 was RMB0.4 million, representing a sharply increase as compared to share of losses of joint ventures of RMB2.3 million in the previous corresponding period, primarily due to the decrease in share of losses of Zibo Tianqiyuan Water Supply Co., Ltd.* (淄博市天齊淵供水有限公司).

Income Tax Expense

Income tax expense for the year ended 31 December 2019 included the current PRC income tax of RMB41.2 million and deferred tax expenses of RMB84.6 million, which were RMB73.2 million and RMB72.6 million for the previous corresponding period, respectively. The Group's effective tax rate for the year ended 31 December 2019 was approximately 25%, representing a decrease of 7 percentage point as compared with 32% for the previous corresponding period, which was mainly due to (i) the decrease in reversal of tax losses recognised in previous periods, (ii) the decrease in tax effect of disposal of subsidiaries, (iii) the decrease in tax losses not recognised, (iv) the decrease in the tax effect of share of profits and losses of associates and joint ventures, and (v) the decrease in the expenses not deductible for tax .

Financial Receivables

	As at	
	31 December 2019	31 December 2018
	RMB'000	*RMB'000*
Receivables for service concession arrangements	**9,157,975**	7,831,580
Portion classified as current	**(1,643,994)**	(1,400,911)
Non-current portion	**7,513,981**	6,430,669

As at 31 December 2019, the Group's financial receivables of RMB9,158.0 million (31 December 2018: RMB7,831.6 million) increased by RMB1,326.4 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.

* *For identification purposes only*

Contract Assets

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Contract assets	**2,249,371**	2,491,404
Portion classified as current	**(222,236)**	(209,474)
Non-current portion	**2,027,135**	2,281,930

As at 31 December 2019, the Group's contract assets of RMB2,249.4 million (31 December 2018: RMB2,491.4 million), decreased by RMB242.0 million, mainly due to the net impact of reclassification from contract assets to financial receivables and the increase of construction of the Group's projects under BOT, PPP, and EPC contracts.

Trade and Bills Receivables

As at 31 December 2019, the Group's trade and bills receivables of RMB1,363.6 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 RMB67.6 million, mainly due to (i) the increase of Urban Water Treatment projects receivables of approximately RMB271.2 million, and (ii) the net decrease of Water Environment Comprehensive Remediation projects receivables of approximately RMB199.7 million, which included EPC project receivables of approximately RMB113.6 million arising from the progress billing and cash collected from EPC and Build-Transfer ("BT") projects of approximately RMB313.3 million.

Prepayments, Other Receivables and Other Assets

As at 31 December 2019, the Group's prepayments, other receivables and other assets of RMB839.9 million (31 December 2018: RMB1,046.4 million) decreased by RMB206.5 million, mainly arising from the decrease in prepayments of approximately RMB25.0 million related to the construction of wastewater treatment plants, the decrease in other operational receivables and accrued interests of approximately RMB137.1 million, the decrease in loans to an associate and joint ventures of approximately RMB91.5 million, and increase from deductible input VAT of approximately RMB47.1 million.

Cash and Cash Equivalents

As at 31 December 2019, the Group's cash and cash equivalents of RMB225.7 million (31 December 2018: RMB976.2 million) decreased by RMB750.5 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 year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Net cash flows used from/(in) operating activities[1]	**115,022**	(126,727)
Net cash flows used in investing activities	**(172,018)**	(860,327)
Net cash flows (used in)/from financing activities	**(694,063)**	271,766
Net decrease in cash and cash equivalents	**(751,059)**	(715,288)
Effect of foreign exchange rate changes	**485**	1,901
Cash and cash equivalents at beginning of the period	**976,246**	1,689,633
Cash and cash equivalents at end of the period	**225,672**	976,246

Note:

(1) For the year ended 31 December 2019 and 2018, the Group invested RMB567.1 million and RMB767.1 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 consolidated statement of financial position. For the years ended 31 December 2019 and 2018, the Group would have incurred cash inflows of RMB682.1 million and RMB640.4 million, respectively, if the Group's investments in BOT, TOT and PPP activities were not accounted for as cash flows used in operating activities.

Trade and Bills Payables

As at 31 December 2019, the Group's trade and bills payables of RMB1,783.0 million (31 December 2018: RMB1,638.3 million) increased by RMB144.7 million, which was in line with the increase of the Group's construction work carried out and the settlements.

Other Payables and Accruals

As at 31 December 2019, the Group's other payables and accruals of RMB360.6 million (31 December 2018: RMB507.0 million) decreased by RMB146.4 million, which was mainly due to the decrease in payables for acquisitions.

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 31 December 2019, the carrying amount of the Group's cash and cash equivalents was RMB225.7 million, representing a decrease of approximately RMB750.5 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 RMB694.1 million, settlements of acquisition and investing payables of RMB169.0 million and cash outflows of RMB189.2 million for purchases of property, plant and equipment and intangible assets from investing activities, cash inflows of RMB16.6 million for decrease of pledged deposits, repurchase of other non-current financial assets of RMB105.1 million, decrease in loans to a joint venture of RMB6.0 million from investing activities, cash inflows of RMB48.1 million for disposal of a joint venture and subsidiaries from investing activities, dividend of RMB9.1 million received from investing activities, and the net cash inflows of RMB115.0 million from operating activities.

The Group's total interest-bearing bank and other borrowings amounted to RMB7,632.6 million as at 31 December 2019 (31 December 2018: RMB7,096.0 million), including lease liabilities of RMB3.9 million arising from the application of new lease standard under IFRS 16 — Leases as at 1 January 2019, over 62% of interest-bearing bank and other borrowings bear interest at floating rates.

The Group's total corporate bonds amounted to RMB1,476.8 million as at 31 December 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 31 December 2019, the Group had banking facilities amounting to RMB57,098.3 million, of which RMB49,028.8 million have not been utilised. Of the unutilised banking facilities as at that date, RMB50.0 million were unrestricted facilities and the remaining RMB48,978.8 million were mainly limited to be utilized on environmental protection infrastructure and comprehensive management.

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

Charges on the Group's Assets

Outstanding balance of interest-bearing bank and other borrowings as at 31 December 2019 was approximately RMB7,632.6 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 RMB7,693.0 million.

Capital Expenditure

During the year ended 31 December 2019, the Group's total capital expenditure were RMB1,204.3 million, compared to RMB1,230.7 million in 2018, primarily including the consideration of approximately RMB942.5 million for construction and acquisition of BOT, TOT, BOO and PPP projects and the consideration of approximately RMB257.9 million for acquisition of equity interests in subsidiaries, associates and a joint venture.

EMPLOYEES AND REMUNERATION POLICIES

The Group had 2,313 employees as at 31 December 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 31 December 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 31 December 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

Save as disclosed, no significant events took place subsequent to 31 December 2019.

PROPOSED FINAL DIVIDEND

The Board did not recommend payment of the final dividend for the year ended 31 December 2019 (year ended 31 December 2018: Nil).

CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from Friday, 29 May 2020 to Wednesday, 3 June 2020, both days inclusive, during which period no transfer of Shares can be registered. The record date for entitlement to attend and vote at the Annual General Meeting is Wednesday, 3 June 2020. In order to be qualified for attending and voting at the Annual General Meeting, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 28 May 2020.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and permitted under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), are held by the public at all times during the year ended 31 December 2019 and up to the date of this announcement.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. During the year ended 31 December 2019, the Company has complied with all the applicable provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules, save and except for the deviations from code provision A.6.7.

Under code provision A.6.7, independent non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Certain independent non-executive directors were unable to attend the Company's annual general meeting held on 5 June 2019 due to their other business commitments. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") currently comprises three independent non-executive Directors, namely Mr. Chau Kam Wing (Chairman of Audit Committee), Mr. Peng Yongzhen and Mr. Chang Qing.

The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting procedure and internal controls of the Company. The Audit Committee has reviewed and approved the final results for the year ended 31 December 2019 and discussed the internal control and risk management systems. The Audit Committee considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

SCOPE OF WORK OF THE COMPANY'S AUDITOR IN RESPECT OF THE PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Federation of Accounts and consequently no assurance has been expressed by Ernst & Young on this preliminary announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the year ended 31 December 2019.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

PUBLICATION OF THE CONSOLIDATED ANNUAL RESULTS AND 2019 ANNUAL REPORT ON THE WEBSITES OF THE HONG KONG STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Hong Kong Stock Exchange and the Company, and the 2019 annual report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Hong Kong Stock Exchange and the Company in due course.

By order of the Board
KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED
LI Zhong
Co-Chairman

Hong Kong, 27 March 2020

As at the date of this announcement, the Board comprises seven Directors, namely Mr. ZHAO Juanxian (alias, ZHAO Junxian), Mr. LI Zhong, Ms. LIU Yu jie, and Mr. DUAN, Jerry Linnan as executive Directors; and Mr. CHAU Kam Wing, Mr. CHANG Qing and Mr. PENG Yongzhen as independent non-executive Directors.