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KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED

康達國際環保有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 6136)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

HIGHLIGHTS

- Revenue was approximately RMB1,729.8 million, representing an increase of approximately 22% over the corresponding period last year.
- Gross profit was RMB639.3 million, representing an increase of approximately 7% over the corresponding period last year.
- Earnings before interest, taxes, depreciation and amortization was RMB630.1 million, representing an increase of approximately 12% over the corresponding period last year.
- Profit attributable to owners of the parent was RMB225.2 million, representing an increase of approximately 23% over the corresponding period last year.
- Basic and diluted earnings per share attributable to ordinary equity holders of the parent was RMB10.93 cents, representing an increase of approximately 22% as compared with RMB8.98 cents over the corresponding period last year.
- The Board did not recommend the payment of interim dividend for the six months ended 30 June 2020.

The board (the “Board”) of directors (the “Directors”) of Kangda International Environmental Company Limited (the “Company”) is pleased to announce the unaudited interim condensed consolidated financial results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2020 (the “Reporting Period”) together with the comparative figures for the corresponding period in 2019 and the relevant explanatory notes as set out below.

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

For the six months ended 30 June 2020

	<i>Notes</i>	For the six months ended 30 June	
		2020	2019
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	4	1,729,806	1,412,568
Cost of sales		(1,090,464)	(817,303)
Gross profit		639,342	595,265
Other income and gains	5	71,623	68,214
Selling and distribution expenses		(1,712)	(3,388)
Administrative expenses		(97,133)	(120,267)
Other expenses		(10,530)	(2,593)
Finance costs	6	(289,604)	(273,681)
Share of profits and losses of:			
Associates		(3,676)	(3,999)
Joint ventures		(1,599)	1,372
PROFIT BEFORE TAX	7	306,711	260,923
Income tax expense	8	(74,345)	(71,987)
PROFIT FOR THE PERIOD		232,366	188,936
Profit attributable to:			
Owners of the parent		225,218	183,595
Non-controlling interests		7,148	5,341
		232,366	188,936
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic and diluted	9	RMB 10.93 cents	RMB 8.98 cents

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)**

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
OTHER COMPREHENSIVE EXPENSE		
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	—	(112,200)
	<u>—</u>	<u>(112,200)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>232,366</u>	<u>76,736</u>
Total comprehensive income attributable to:		
Owners of the parent	225,218	71,395
Non-controlling interests	7,148	5,341
	<u>232,366</u>	<u>76,736</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2020

		30 June	31 December
		2020	2019
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		128,763	134,672
Investment properties		9,476	9,827
Investments in associates		374,568	378,243
Investment in joint ventures		87,321	88,920
Equity investments designated at fair value through other comprehensive income		363,000	363,000
Service concession intangible assets		990,343	802,417
Other intangible assets		3,110	3,268
Contract assets		2,216,068	2,027,135
Goodwill		60,219	60,219
Financial receivables	10	7,839,452	7,513,981
Deferred tax assets		98,873	90,629
Right-of-use assets		1,699	3,261
Prepayments, other receivables and other assets		237,542	231,502
		<u>12,410,434</u>	<u>11,707,074</u>
TOTAL non-current assets			
CURRENT ASSETS			
Inventories		13,640	13,530
Contract assets		255,582	222,236
Financial receivables	10	1,668,597	1,643,994
Trade and bills receivables	11	1,437,272	1,363,602
Prepayments, other receivables and other assets		601,989	608,392
Pledged deposits		128,648	163,167
Other current financial assets		165,805	750,824
Cash and cash equivalents		822,168	225,672
		<u>5,093,701</u>	<u>4,991,417</u>
TOTAL current assets			
CURRENT LIABILITIES			
Trade and bills payables	12	1,905,430	1,779,354
Other payables and accruals		212,414	342,121
Deferred income		1,260	–
Interest-bearing bank and other borrowings		2,909,971	3,222,399
Corporate bonds		314,860	907,423
Tax payable		27,271	30,829
		<u>5,371,206</u>	<u>6,282,126</u>
TOTAL current liabilities			
NET CURRENT LIABILITIES		<u>(277,505)</u>	<u>(1,290,709)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>12,132,929</u>	<u>10,416,365</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(continued)
30 June 2020

	<i>Notes</i>	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Trade payables	12	3,702	3,624
Interest-bearing bank and other borrowings		6,047,468	4,410,206
Corporate bonds		264,803	569,366
Deferred income		1,890	–
Other payables and accruals		19,743	18,447
Deferred tax liabilities		894,551	820,570
		<u>7,232,157</u>	<u>5,822,213</u>
Total non-current liabilities		<u>7,232,157</u>	<u>5,822,213</u>
Net assets		<u>4,900,772</u>	<u>4,594,152</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		17,125	16,143
Reserves		4,677,900	4,378,959
		<u>4,695,025</u>	<u>4,395,102</u>
Non-controlling interests		205,747	199,050
Total equity		<u>4,900,772</u>	<u>4,594,152</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020

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 wastewater 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 announcement, 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 months ended 30 June 2020 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 2019.

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.

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 2020, the Group's current liabilities exceeded its current assets by approximately RMB277,505,000 (31 December 2019: net current liabilities: RMB1,290,709,000). In addition, the Group has contracted capital commitments of RMB213,818,000 and commitments in respect of service concession arrangements of RMB2,936,372,000. 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 2020, which are as follows:

- (i) Additional bank loans and facilities were already obtained during July 2020 and August 2020;
- (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) Expected cash inflows arising from the Group's operating activities subsequent to 30 June 2020.

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 2021. 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.

2.2 Changes to the Group's accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised International Financial Reporting Standards ("IFRSs") for the first time for the current period's financial information.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to IFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

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

2.2 Changes to the Group's accounting policies (continued)

The nature and impact of the revised IFRSs are described below:

- (a) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.
- (c) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 30 June 2020, certain monthly lease payments for the leases of the Group's office buildings have been reduced or waived by the lessors as a result of the Covid-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the Covid-19 pandemic during the period ended 30 June 2020. Accordingly, a reduction in the lease payments arising from the rent concessions has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2020.

- (d) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

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 wastewater 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; and
- (c) the segment of Rural Water Improvement engages in the construction and operation related to "the Water Environment Facilities of Beautiful Village" such as: wastewater treatment facilities and pipeline construction for collecting wastewater so as to achieve 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.

For the six months ended 30 June 2020 (Unaudited)	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	1,521,820	164,117	43,869	1,729,806
	1,521,820	164,117	43,869	1,729,806
Segment results	393,909	23,309	8,157	425,375
<i>Reconciliation:</i>				
Unallocated income and gains				29,923
Share of loss of unallocated associates				(1,157)
Share of loss of an unallocated joint venture				(464)
Corporate and other unallocated expenses				(23,488)
Unallocated lease-related finance costs				(96)
Unallocated finance costs (other than interest on lease liabilities)				(123,382)
Profit before tax for the period				<u>306,711</u>

3. OPERATING SEGMENT INFORMATION (continued)

For the six months ended 30 June 2020 (Unaudited)	Urban Water Treatment RMB'000	Water Environment Comprehensive Remediation RMB'000	Rural Water Improvement RMB'000	Total RMB'000
Other segment information				
Share of loss of associates	-	(2,519)	-	(2,519)
Share of loss of unallocated associates				(1,157)
Share of loss of joint ventures	(1,135)	-	-	(1,135)
Share of loss of an unallocated joint venture				(464)
Depreciation and amortization	29,555	66	257	29,878
Unallocated depreciation and amortization				3,867
Total depreciation and amortization				<u>33,745</u>
At 30 June 2020 (Unaudited)	Urban Water Treatment RMB'000	Water Environment Comprehensive Remediation RMB'000	Rural Water Improvement RMB'000	Total RMB'000
Segment assets	14,103,582	1,411,218	668,670	16,183,470
<i>Reconciliation:</i>				
Corporate and other unallocated assets				1,320,665
Total assets				<u>17,504,135</u>
Segment liabilities	10,902,103	551,190	527,051	11,980,344
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				623,019
Total liabilities				<u>12,603,363</u>
Other segment information				
Investments in associates	-	229,681	-	229,681
Unallocated investments in associates				144,887
Investment in a joint venture	73,977	-	-	73,977
Unallocated investment in a joint venture				13,344
Capital expenditure	68,097	14	43,273	111,384
Unallocated amounts				12
Total capital expenditure*				<u>111,396</u>

* Capital expenditure consists of additions to property, plant and equipment and intangible assets during the six months ended 30 June 2020.

3. OPERATING SEGMENT INFORMATION (continued)

For the six months ended 30 June 2019 (Unaudited)	Urban Water Treatment <i>RMB'000</i>	Water Environment Comprehensive Remediation <i>RMB'000</i>	Rural Water Improvement <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue				
Sales to external customers	1,304,366	75,344	32,858	1,412,568
	1,304,366	75,344	32,858	1,412,568
Segment results	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				(36,121)
Unallocated lease-related finance costs				(155)
Unallocated finance costs (other than interest on lease liabilities)				(164,690)
Profit before tax for the period				<u>260,923</u>
Other segment information				
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				<u>30,069</u>

3. OPERATING SEGMENT INFORMATION (continued)

At 31 December 2019 (Audited)	Urban Water Treatment <i>RMB'000</i>	Water Environment Comprehensive Remediation <i>RMB'000</i>	Rural Water Improvement <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	12,986,436	1,401,913	653,280	15,041,629
<i>Reconciliation:</i>				
Corporate and other unallocated assets				<u>1,656,862</u>
Total assets				<u><u>16,698,491</u></u>
Segment liabilities	9,383,169	567,000	542,412	10,492,581
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				<u>1,611,758</u>
Total liabilities				<u><u>12,104,339</u></u>
Other segment information				
Investments in associates	–	232,200	–	232,200
Unallocated investments in associates				146,043
Investment in a joint venture	75,112	–	–	75,112
Unallocated investment in a joint venture				13,808
Capital expenditure	209,513	–	32,858	242,371
Unallocated amounts				<u>24</u>
Total capital expenditure*				<u><u>242,395</u></u>

* Capital expenditure consists of additions to property, plant and equipment and intangible assets during the six months ended 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 months ended 30 June 2020 is as follows:

	For the six months ended 30 June	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Revenue from construction services	918,459	679,773
Revenue from operating services	490,489	433,714
Financial income	320,858	299,081
	<u>1,729,806</u>	<u>1,412,568</u>

Revenue from construction services, operating services of wastewater 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.

The aggregated revenue from construction services, operating services and financial income derived in mainland China amounted to RMB1,729,806,000 and RMB1,412,568,000 for the six months ended 30 June 2020 and 2019, respectively.

5. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Government grants (<i>note a</i>)	32,267	21,539
Investment income	26,088	17,420
Interest income from loans to third parties	9,035	11,478
Bank interest income	2,923	2,665
Interest income from loans to an associate and joint ventures	410	3,622
Rental income less depreciation of investment properties	132	259
Dividend income from equity investments designated at fair value through other comprehensive income	–	9,143
Gain on disposal of a subsidiary	–	1,595
Others	768	493
	<u>71,623</u>	<u>68,214</u>

Note:

- (a) Government grants primarily represented the value-added tax refund and the environmental protection funds for environmental technological improvements granted by government authorities. 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.

6. FINANCE COSTS

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Interest on bank and other borrowings	236,157	205,492
Interest on corporate bonds	53,351	68,034
Interest on lease liabilities	96	155
	<u>289,604</u>	<u>273,681</u>

7. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Cost for construction services	770,356	527,258
Cost for operation services	320,108	290,045
Total of cost of sales	<u>1,090,464</u>	<u>817,303</u>
Depreciation of property, plant and equipment	5,169	5,625
Depreciation of investment properties	351	346
Depreciation of right-of-use assets	1,562	1,562
Amortisation of service concession intangible assets	26,506	22,379
Amortisation of other intangible assets	157	157
Interest expense on lease liabilities	96	155
Impairment of trade receivables and other receivables	8,482	1,209
Auditor's remuneration	650	650
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages, salaries and allowances, social securities and benefits	104,556	108,134
Pension scheme contributions (defined contribution scheme)	3,187	11,190
Total employee benefit expense	<u>107,743</u>	<u>119,324</u>
Loss on disposal of a subsidiary	<u>708</u>	<u>-</u>

8. 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 for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

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 months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Current income tax		
— Mainland China	8,608	30,204
Deferred income tax	65,737	41,783
	<u>74,345</u>	<u>71,987</u>
Income tax charge for the period	<u>74,345</u>	<u>71,987</u>

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 months 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 months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Earnings:		
Profit for the period attributable to ordinary equity holders of the parent	<u>225,218</u>	<u>183,595</u>
	Number of Shares 30 June 2020 (Unaudited)	Number of Shares 30 June 2019 (Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	<u>2,061,375,000</u>	<u>2,044,676,000</u>

The Company issued 107,350,000 new shares during the six months ended 30 June 2020.

10. FINANCIAL RECEIVABLES

	30 June 2020	31 December 2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Receivables for service concession arrangements	9,508,049	9,157,975
Portion classified as current assets	(1,668,597)	(1,643,994)
Non-current portion	7,839,452	7,513,981

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 governmental authorities or their designees (the “Grantors”).

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 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 2020, the Group’s financial receivables with a carrying value of RMB6,221,437,000 (31 December 2019: RMB5,632,127,000) were pledged to secure certain bank and other borrowings granted to the Group.

11. 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:

	30 June 2020	31 December 2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 3 months	480,490	502,100
4 to 6 months	150,397	131,001
7 to 12 months	190,587	149,550
Over 12 months	615,798	579,951
	1,437,272	1,362,602

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 3 months	371,721	474,841
4 to 6 months	720,926	230,818
7 to 12 months	456,020	413,261
Over 12 months	360,465	664,058
	<u>1,909,132</u>	<u>1,782,978</u>

13. DIVIDEND

The board of directors does not recommend payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

During the first half of 2020, the global economy was severely impacted by the Novel Coronavirus pandemic, in which most industries have undergone volatile fluctuations and shrink. However, as one of the core basic services to maintain environmental hygiene of our communities, wastewater treatment is greatly emphasized with strong support from the government. On 1 February 2020, the Ministry of Ecology and Environment of the PRC published the “Notice regarding monitoring of medical wastewater and urban wastewater under the Novel Coronavirus pandemic”* (“關於做好新型冠狀病毒感染的肺炎疫情醫療污水和城鎮污水監管工作的通知”), to employ monitoring of urban wastewater, which is regarded as an important element of prevention and control of the pandemic. During the Period, Kangda International Environmental Company Limited(the “Company”, with its subsidiaries, the “Group”)fully complied with the prevention and control policies by the local governments, and adopted closed management as to all the wastewater treatment plants, in order to ensure the continuous operation of all wastewater treatment plants and the safety of its staff. Under the circumstance that the pandemic was gradually under control in China, the six ministries and commissions including National Development and Reform Commission and Ministry of Ecology and Environment jointly published the “Implementation opinions regarding building better development environment to support the robust development of environmental protection private enterprises”* (“關於營造更好發展環境支持民營節能環保企業健康發展的實施意見”), to create a better environment for the development of environmental protection private enterprises. In July 2020, the PRC published the “Implementation proposal to strengthen weak points regarding urban wastewater treatment”* (“城鎮生活污水處理設施補短板強弱項實施方案”), which specified the respective targets of urban wastewater treatment until 2023. The Group believes the policies in respect of wastewater treatment will be favorable to the industry in the foreseeable future.

DEVELOPMENT STRATEGIES AND FUTURE DEVELOPMENT

Since the mid-2019, the Group has adopted the operational principles of “Strengthening the basic, cutting expenditure and raising revenue”, and we have achieved satisfactory results during the period. With stringent control of management and operating costs, our flat management structure has been continuously optimized, profitability significantly increased and the gearing ratio stably decreased. In the future, the Group will continue to focus on our main business, namely wastewater treatment, and increasing our profitability and improving the operational cash flows by raising treatment standards and expansion of our existing projects. The Group will seek more efficient forms of fund raising, so as to decrease the gearing ratio, expand funding channels, reduce finance costs and optimize our debt structures. The Group will continue to optimize our management structure, increase operational efficiency, reduce operational costs and management expenses, and in the meanwhile, speed up the process of activating low-efficiency assets. In addition, the Group will continue to seek opportunities to expand its water industry into the upstream and downstream industries, carefully select projects including disposal of sludge, operation, maintenance and construction of drainage facilities, reuse of reclaimed water and disposal of industrial wastewater, so as to maximize return for our shareholders.

* *for identification purposes only*

BUSINESS REVIEW

In the year of 2019, a wholly-owned subsidiary of 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 environmental protection business in the future, which is primarily urban wastewater treatment.

On 8 May 2020 China Water completed the subscription and Baring Private Equity Asia V Holding (5) Limited (“BPEA”) completed the issue of the exchangeable bonds (the “Exchangeable Bonds”). The Exchangeable Bonds entitled the holder thereof to exchange for 344,129,996 company shares (representing approximately 16.08% of the entire existing issued share capital of the Company) owned by BPEA. Completion of subscription and issuance of the Exchangeable Bonds shows these two major shareholders’ confidence in the development of the Company.

During the six months ended 30 June 2020 (the “Reporting Period”), our principal business activities remained focusing on the Urban Water Treatment, followed by the existing projects of 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 and sponge city construction. 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 Water Environment Facilities of Beautiful Village” such as: wastewater treatment facilities and pipeline construction for collecting wastewater so as to achieve rural living environment improvement. The Group started to carry out this business since 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 and invest in high-quality, value-adding upstream and downstream businesses of water industry. The Group is very confident about the Group’s prospects and future profitability. And we will dedicate more efforts to enhance the profitability and effectiveness of the Group.

1.1 Urban Water Treatment

As at 30 June 2020, the Group had entered into a total of 112 service concession arrangements projects, including 105 wastewater treatment plants, 2 water distribution plants, 3 sludge treatment plants and 2 reclaimed water treatment plants. 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 30 June 2020 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	3,591,500	–	40,000	550	3,632,050
Not yet start operation/ Not yet transferred	670,000	180,000	25,000	–	875,000
Total	<u>4,261,500</u>	<u>180,000</u>	<u>65,000</u>	<u>550</u>	<u>4,507,050</u>
<i>(Number of projects)</i>					
In operation	89	–	1	3	93
Not yet start operation/ Not yet transferred	16	2	1	–	19
Total	<u>105</u>	<u>2</u>	<u>2</u>	<u>3</u>	<u>112</u>

	Number of projects	Treatment capacity (Tonnes/Day)	Actual processing volume during the six months ended 30 June 2020 (Million Tonnes)
Wastewater treatment services			
Shandong	45	1,244,500	151.4
Henan	23	1,060,000	150.9
Heilongjiang	6	425,000	70.2
Shanxi	2	350,000	23.9
Zhejiang	2	250,000	44.1
Guangdong	4	220,000	12.2
Anhui	3	175,000	21.8
Jiangsu	6	102,000	13.3
Other provinces/municipalities*	14	435,000	36.3
	105	4,261,500	524.1
Water distribution services	2	180,000	–
Reclaimed water treatment services	2	65,000	1.0
Total	109	4,506,500	525.1
Sludge treatment services	3	550	–
Total	112	4,507,050	525.1

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

1.1.1 Operation Services

As at 30 June 2020, the Group had 89 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 months ended 30 June 2020 reached 3,591,500 tonnes (2019: 3,461,500 tonnes), 40,000 tonnes (2019: 40,000 tonnes), and 550 tonnes (2019: 550 tonnes), respectively. For the six months ended 30 June 2020, the annualized utilization rate for wastewater and reclaimed water treatment plants in operation was approximately 79% (2019: 83%). The decrease in average utilization rate was primarily due to the actual processing volume of partial newly commenced water plants were much lower than the design capacity in the early stage. The actual average water treatment tariff for the six months ended 30 June 2020 was approximately RMB1.46 per tonne (2019: approximately RMB1.47 per tonne). The actual aggregate processing volume for the six months ended 30 June 2020 was 525.1 million tonnes, representing an increase of 6% as compared to the same period last year (six months ended 30 June 2019: 496.4 million tonnes), which was in line with the increase in treatment capacity.

Total operation revenue of the Group's Urban Water Treatment services recorded for the six months ended 30 June 2020 was RMB487.5 million, representing an increase of approximately 12% (six months ended 30 June 2019: RMB433.7 million). The corresponding increase was primarily due to the increase of the number of 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 months ended 30 June 2020, construction revenue was recognised for 29 projects, including 23 wastewater treatment plants, 2 water distribution plants, 1 reclaimed water treatment plant, and 3 sludge treatment plants, which were mainly located in Henan, Shandong, Shanxi, and Heilongjiang provinces in Mainland China. Total construction revenue of those projects for the six months ended 30 June 2020 was RMB717.0 million, representing a year-on-year increase of approximately 25% (six months ended 30 June 2019: RMB574.4 million). The corresponding increase was primarily due to the rapid implementation of new projects. As at 30 June 2020, the total daily treatment capacity of the service concession arrangements plants, which was still in the construction stage, was 750,000 tonnes, including 545,000 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 30 June 2020, the Group had entered into 2 PPP projects and 13 EPC projects in Henan, Guangxi, Jiangxi, Shandong and other provinces in Mainland China. 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 six months ended 30 June 2020. The projects were mainly located in Henan, Jiangxi, Shandong and other provinces in Mainland China. For the six months ended 30 June 2020, total revenue of those projects was RMB164.1 million, representing a year-on-year increase of approximately 118% (six months ended 30 June 2019: RMB75.3 million). The corresponding increase was primarily due to the increase in the construction work of existing 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 six months ended 30 June 2020, total revenue of those projects was RMB43.9 million, representing a year-on-year increase of approximately 33% (six months ended 30 June 2019: RMB32.9 million). The corresponding increase was primarily due to the increase in the construction work of existing projects.

FINANCIAL ANALYSIS

Revenue

For the six months ended 30 June 2020, the Group recorded a revenue of RMB1,729.8 million, representing an increase of approximately 22% as compared to the previous corresponding period of RMB1,412.6 million. The increase was mainly due to the increase in construction revenue of RMB238.6 million, the increase in operation revenue of RMB56.8 million, and the increase in financial income of RMB21.8 million. The increase in construction revenue was mainly due to the rapid implementation of new projects of Urban Water Treatment services, the increase in the construction work of existing 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 months ended 30 June 2020 amounted to RMB1,090.5 million, including construction costs of RMB770.4 million and operation costs of water treatment plants of RMB320.1 million, and representing an increase of approximately 33% as compared to the previous corresponding period of RMB817.3 million. The increase was due to the increase in construction and operation costs. The increase in construction costs was mainly due to the increase in the construction work of existing and new projects which was in line with the increase of construction revenue. The increase in operation cost was in line with the increase of daily wastewater treatment capacity.

Gross Profit Margin

For the six months ended 30 June 2020, gross profit margin was approximately 37%, representing a decrease of 5 percentage points as compared to the previous corresponding period of approximately 42%. The decrease was mainly due to the increase in the proportion of construction revenue recognised in this period, while the average gross profit margin of construction revenue was relatively low.

Other Income and Gains

The Group recorded other income and gains of RMB71.6 million for the six months ended 30 June 2020, representing an increase of approximately 5% as compared to the previous corresponding period of RMB68.2 million. The amount for this Reporting Period primarily included government grants of RMB32.3 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 RMB2.9 million, interest income of RMB9.0 million from loans to third parties, and other investment income of RMB26.1 million.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the six months ended 30 June 2020 was RMB1.7 million, representing a decrease of approximately 50% as compared to RMB3.4 million in the previous corresponding period, which was a result of stringent management and cost control.

Administrative Expenses

Administrative expenses for the six months ended 30 June 2020 was RMB97.1 million, representing a decrease of approximately 19% as compared to the previous corresponding period of RMB120.3 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.

* for identification purposes only

Finance Costs

Finance costs for the six months ended 30 June 2020 of RMB289.6 million mainly comprised of interests on interest-bearing bank and other borrowings and corporate bonds, representing an increase of approximately 6% as compared to RMB273.7 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 long-term interest-bearing bank and other borrowings. The average balance of interest-bearing bank and other borrowings and corporate bonds increased by RMB197.1 million and the average interest rate was 6.21%, representing an increase of 0.21 percentage points as compared to that in the previous corresponding period. The increase in average interest rate was mainly due to the change in the loan structure, the long-term interest-bearing bank and other borrowings obtained which bore a relatively higher rate than the short-term one. 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 months ended 30 June 2020 was RMB3.7 million, representing a decrease of approximately 8% as compared to share of losses of associates of RMB4.0 million in the previous corresponding period, primarily due to the decrease in share of losses of Zhongyuan Water Group Co., Ltd.* (中原水務集團有限公司).

Income Tax Expense

Income tax expense for the six months ended 30 June 2020 included the current PRC income tax of RMB8.6 million and deferred tax expenses of RMB65.7 million, which were RMB30.2 million and RMB41.8 million for the previous corresponding period, respectively. The Group's effective tax rate for the six months ended 30 June 2020 was approximately 24%, representing a decrease of 4 percentage point as compared with 28% for the previous corresponding period, which was mainly due to (i) the increase in effect of lower tax rates for specific provinces or enacted by local authority, (ii) the decrease in expenses not deductible for tax, and (iii) the increase in tax losses not recognised.

Financial Receivables

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Receivables for service concession arrangements	9,508,049	9,157,975
Portion classified as current	<u>(1,668,597)</u>	<u>(1,643,994)</u>
Non-current portion	<u>7,839,452</u>	<u>7,513,981</u>

* For identification purposes only

As at 30 June 2020, the Group's financial receivables of RMB9,508.0 million (31 December 2019: RMB9,158.0 million) increased by RMB350.0 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 2020	31 December 2019
	<i>RMB'000</i>	<i>RMB'000</i>
Contract assets	2,471,650	2,249,371
Portion classified as current	(255,582)	(222,236)
	<u>2,216,068</u>	<u>2,027,135</u>
Non-current portion		

As at 30 June 2020, the Group's contract assets of RMB2,471.7 million (31 December 2019: RMB2,249.4 million), increased by RMB222.3 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 30 June 2020, the Group's trade and bills receivables of RMB1,437.3 million (31 December 2019: RMB1,363.6 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 RMB73.7 million, mainly due to (i) the increase of Urban Water Treatment projects receivables of approximately RMB134.8 million, and (ii) the net decrease of Water Environment Comprehensive Remediation projects receivables of approximately RMB52.1 million, which included EPC project receivables of approximately RMB197.7 million arising from the progress billing and cash collected from EPC and Build-Transfer ("BT") projects of approximately RMB249.8 million.

Prepayments, Other Receivables and Other Assets

As at 30 June 2020, the Group's prepayments, other receivables and other assets of RMB839.5 million (31 December 2019: RMB839.9 million) decreased by RMB0.4 million, representing a minor change as compared with that as at the end of the previous period.

Cash and Cash Equivalents

As at 30 June 2020, the Group's cash and cash equivalents of RMB822.2 million (31 December 2019: RMB225.7 million) increased by RMB596.5 million as compared with that as at the end of previous period. The increase was due to the increase in cash inflows from financing activities and investing activities of the Group.

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Net cash flows used in operating activities ⁽¹⁾	(32,770)	(159,179)
Net cash flows used from/(in) investing activities	511,684	(123,628)
Net cash flows used from/(in) financing activities	117,726	(543,091)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	596,640	(825,898)
Effect of foreign exchange rate changes	(144)	3
Cash and cash equivalents at beginning of the period	225,672	976,246
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	822,168	150,351
	<hr/> <hr/>	<hr/> <hr/>

Note:

- (1) For the six months ended 30 June 2020 and 2019, the Group invested RMB459.5 million and RMB376.1 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 interim condensed consolidated statement of financial position. For the six months ended 30 June 2020 and 2019, the Group would have incurred cash inflows of RMB426.7 million and RMB216.9 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 2020, the Group's trade and bills payables of RMB1,909.1 million (31 December 2019: RMB1,783.0 million) increased by RMB126.1 million, which was in line with the increase of the Group's construction work in progress and the settlements.

Other Payables and Accruals

As at 30 June 2020, the Group's other payables and accruals of RMB232.2 million (31 December 2019: RMB360.6 million) decreased by RMB128.4 million, which was mainly due to the decrease in payables for acquisitions and amounts due to related parties.

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 2020, the carrying amount of the Group's cash and cash equivalents was RMB822.2 million, representing an increase of approximately RMB596.5 million as compared to RMB225.7 million as at 31 December 2019, which was mainly due to the net cash inflows from financing activities of RMB117.7 million, settlements of acquisition and investing payables of RMB26.2 million and cash outflows of RMB108.9 million for purchases of property, plant and equipment and intangible assets in investing activities, cash inflows of RMB34.5 million for decrease in pledged deposits, repurchase of other current financial assets of RMB611.1 million, cash inflows of RMB0.8 million for disposal of a subsidiary from investing activities, cash inflows of RMB0.3 million for disposal of property, plant and equipment and intangible assets from investing activities, and the net cash outflows of RMB32.8 million used in operating activities.

The Group's total interest-bearing bank and other borrowings amounted to RMB8,957.4 million as at 30 June 2020 (31 December 2019: RMB7,632.6 million), including lease liabilities of RMB2.0 million arising from the application of new lease standard under IFRS 16 — Leases since 1 January 2019, over 56% of interest-bearing bank and other borrowings bear interest at floating rates.

The Group's total corporate bonds amounted to RMB579.7 million as at 30 June 2020 (31 December 2019: RMB1,476.8 million), which comprised of corporate bonds issued on 13 June 2018, with an aggregate amount of RMB300.0 million, 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 2020, the Group had banking facilities amounting to RMB57,930.4 million, of which RMB49,124.0 million have not been utilized. The unutilized of RMB49,124.0 million were mainly limited to be utilized on environmental protection infrastructure and comprehensive management.

As at 30 June 2020, the gearing ratio of the Group (calculated by total liabilities divided by total assets) was 72.0%, while the gearing ratio was 72.5% as at 31 December 2019.

Charges on the Group's Assets

Outstanding balance of interest-bearing bank and other borrowings as at 30 June 2020 was approximately RMB8,957.4 million, which were repayable within one month to twenty-five years and were secured by financial receivables, service concession intangible assets, property, plant and equipment, trade receivables, contract assets and pledged deposits, of which the total amounts of the pledge of assets amounted to RMB9,225.6 million.

EMPLOYEES AND REMUNERATION POLICIES

The Group had 2,376 employees as at 30 June 2020. 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 2020, the Group did not have any significant contingent liabilities (31 December 2019: 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 2020, 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 30 June 2020.

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 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 on the Stock Exchange (the “Listing Rules”). The Board is of the view that during the six months ended 30 June 2020, 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, optimized management approaches and strategies, improved supporting mechanism and enhanced control effectiveness and operational efficiency of the Group.

The Group enhanced overall control over target responsibilities and budget control, which was promoted and implemented within the entities under the Group as well as management level, and implemented the main body responsibility system through an organic combination of the trinity of responsibilities, authority and rights 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 2020 (six months ended 30 June 2019: Nil).

AUDIT COMMITTEE AND REVIEW OF THE INTERIM RESULTS

The Company has established the Audit Committee to assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems, overseeing the audit process and performing other duties and responsibilities as assigned by the Board. As at 30 June 2020, the Audit Committee consisted of three independent non-executive Directors, being Mr. Chau Kam Wing (chairman), Mr. Chang Qing, and Mr. Peng Yongzhen.

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2020. 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 2020 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 the International Auditing and Assurance Standards Board.

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 2020.

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

During the six months ended 30 June 2020, 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

This interim results announcement has been published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.kangdaep.com. The interim report of the Group for the six months ended 30 June 2020 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. Li Zhong

Hong Kong, 27 August 2020

As at the date of this announcement, the Board comprises 7 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.