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 2017

HIGHLIGHTS

- Revenue was approximately RMB1,067.6 million, representing an increase of approximately 18% over the corresponding period last year.
- Profit before tax was approximately RMB229.2 million, representing an increase of approximately 37% over the corresponding period last year.
- Basic and diluted earnings per share attributable to ordinary equity holders of the parent was RMB8.54 cents.
- As at 30 June 2017, total daily treatment capacity was 3,863,350 tonnes, representing an increase of approximately 15% as compared with the capacity of 3,363,350 tonnes as at 31 December 2016.
- The Board did not recommend the payment of interim dividend for the six months ended 30 June 2017.

The board (the "Board") of directors (the "Directors") of Kangda International Environmental Company Limited (the "Company") is pleased to announce the unaudited consolidated interim financial results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2017 (the "Period") together with the comparative figures for the corresponding period in 2016 and the relevant explanatory notes as set out below.

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

For the six-month period ended 30 June 2017

	Notes	For the six-month period ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
REVENUE	4	**1,067,596**	902,186
Cost of sales		**(645,265)**	(524,675)
Gross profit		**422,331**	377,511
Other income and gains	5	**74,022**	47,153
Selling and distribution expenses		**(5,654)**	(4,993)
Administrative expenses		**(135,572)**	(105,436)
Other expenses		**(4,976)**	(17,537)
Finance costs		**(155,908)**	(131,378)
Share of profits and losses of:			
Associates		**36,309**	2,359
A joint venture		**(1,373)**	–
PROFIT BEFORE TAX	6	**229,179**	167,679
Income tax expense	7	**(45,875)**	(45,702)
PROFIT FOR THE PERIOD		**183,304**	121,977
OTHER COMPREHENSIVE INCOME			
The comprehensive income to be reclassified to profit or loss in subsequent periods:			
Share of other comprehensive income of an associate		**112,909**	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**296,213**	121,977
Profit attributable to:			
Owners of the parent		**176,660**	112,979
Non-controlling interests		**6,644**	8,998
		183,304	121,977
Total comprehensive income attributable to:			
Owners of the parent		**289,569**	112,979
Non-controlling interests		**6,644**	8,998
		296,213	121,977
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
		RMB	RMB
— Basic and diluted	8	**8.54 cents**	5.46 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2017

	Notes	**30 June 2017 *RMB'000* (Unaudited)**	31 December 2016 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**130,958**	100,082
Investment properties		**1,464**	1,592
Investments in associates		**851,690**	620,463
Investment in a joint venture		**21,812**	23,185
Intangible assets		**351,563**	279,634
Goodwill		**60,219**	60,219
Financial receivables	*10*	**6,134,538**	5,786,190
Deferred tax assets		**64,584**	53,715
Prepayments, deposits and other receivables		**356,521**	292,964
Total non-current assets		**7,973,349**	7,218,044
CURRENT ASSETS			
Inventories		**10,290**	36,593
Construction contracts		**180,057**	188,370
Financial receivables	*10*	**1,288,051**	1,268,065
Trade and bills receivables	*11*	**856,888**	765,208
Prepayments, deposits and other receivables		**774,393**	758,042
Pledged deposits		**94,416**	92,444
Available-for-sale financial investments		**8,650**	158,400
Cash and cash equivalents	*12*	**815,042**	675,285
Total current assets		**4,027,787**	3,942,407
CURRENT LIABILITIES			
Trade and bills payables		**891,451**	910,396
Other payables and accruals		**251,807**	263,125
Deferred income		**16,133**	16,133
Interest-bearing bank and other borrowings		**2,673,737**	2,360,092
Corporate bonds		**–**	300,000
Tax payable		**16,220**	19,839
Total current liabilities		**3,849,348**	3,869,585
NET CURRENT ASSETS		**178,439**	72,822
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,151,788**	7,290,866

	Notes	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Trade payables		**6,663**	6,304
Interest-bearing bank and other borrowings		**2,631,291**	2,160,917
Corporate bonds		**947,825**	946,825
Deferred income		**9,767**	17,833
Deferred tax liabilities		**503,739**	465,820
Total non-current liabilities		**4,099,285**	3,597,699
Net assets		**4,052,503**	3,693,167
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**16,444**	16,444
Reserves		**3,834,233**	3,530,541
		3,850,677	3,546,985
Non-controlling interests		**201,826**	146,182
Total equity		**4,052,503**	3,693,167

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

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).

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

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

2.1 Basis of preparation

The unaudited interim condensed consolidated financial statements for the six-month period ended 30 June 2017 have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting issued by the International Accounting Standards Board and compliance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

The unaudited interim condensed consolidated financial statements have been prepared under the historical cost convention, except for structured deposit and available-for-sale financial investments, which have been measured at fair value and are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand, except when otherwise indicated.

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

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these amendments apply for the first time in 2017, they do not have a material impact on the interim condensed consolidated financial Statements of the Group. The nature and the impact of each amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its unaudited interim condensed consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ended 31 December 2017.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Annual Improvements Cycle — 2014–2016

Amendments to IFRS 12 *Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12*. The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. These amendments do not have any impact on the Group as the Group does not have any interest in a subsidiary, a joint venture or an associate that is classified as held for sale.

2.3 Issued but not yet effective International Financial Reporting Standards

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments*[2]
IFRS 17	*Insurance Contracts*[3]
Annual Improvements 2014–2016 Cycle	*Amendments to IFRS 1 and Amendments to IAS 28*[1]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

3. OPERATING SEGMENT INFORMATION

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

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

(b) the segment of Water Environment Comprehensive Remediation engages in river harnessing and improvement, foul water body treatment, sponge city construction, pipeline network projects and urban comprehensive pipe tunnel; and

(c) the segment of Rural Water Improvement engages in the construction and operation related to "the Construction of Beautiful Village" such as: waste water treatment, pipeline construction for collecting waste water and rural living environment improvement.

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

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

Segment assets exclude investment properties, unallocated intangible assets, unallocated deferred tax assets, unallocated prepayments, deposits and other receivables, 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.

3. OPERATING SEGMENT INFORMATION (CONTINUED)

For the six-month period ended 30 June 2017 (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	**925,309**	**108,142**	**34,145**	**1,067,596**
	925,309	**108,142**	**34,145**	**1,067,596**
Segment results	**320,545**	**18,321**	**5,361**	**344,227**
Reconciliation:				
Unallocated income and gains				**6,829**
Corporate and other unallocated expenses				**(43,563)**
Finance costs				**(78,314)**
Profit before tax for the period				**229,179**
Other segment information				
Share of profit and loss of associates	**219**	**(615)**	**–**	**(396)**
Unallocated share of profit and loss of associates				**36,705**
Unallocated share of profit and loss of a joint venture				**(1,373)**
Depreciation and amortisation	**4,554**	**24**	**–**	**4,578**
Unallocated depreciation and amortisation				**1,922**
Total depreciation and amortisation				**6,500**
At 30 June 2017 (Unaudited)				
Segment assets	**9,912,679**	**850,886**	**170,179**	**10,933,744**
Reconciliation:				
Corporate and other unallocated assets				**1,067,392**
Total assets				**12,001,136**
Segment liabilities	**6,603,968**	**195,899**	**152,672**	**6,952,539**
Reconciliation:				
Corporate and other unallocated liabilities				**996,094**
Total liabilities				**7,948,633**
Other segment information				
Investments in associates	**78,159**	**65,463**	**–**	**143,622**
Unallocated investments in associates				**708,068**
Unallocated investment in a joint venture				**21,812**
Capital expenditure	**38,698**	**197**	**34,145**	**73,040**
Unallocated amounts				**2,306**
Total capital expenditure*				**75,346**

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

3. OPERATING SEGMENT INFORMATION (CONTINUED)

For the six-month period ended 30 June 2016 (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	895,097	7,089	–	902,186
	895,097	7,089	–	902,186
Segment results	263,413	7,089	–	270,502
Reconciliation:				
Unallocated income and gains				5,708
Corporate and other unallocated expenses				(34,154)
Finance costs				(74,377)
Profit before tax for the period				167,679
Other segment information				
Share of profit and loss of associates and a joint venture	4,121	(1,308)	–	2,813
Unallocated share of profit and loss of associates and a joint venture				(454)
Depreciation and amortisation	1,825	–	–	1,825
Unallocated depreciation and amortisation				2,155
Total depreciation and amortisation				3,980
At 31 December 2016 (Audited)				
Segment assets	9,395,807	766,667	169,260	10,331,734
Reconciliation:				
Corporate and other unallocated assets				828,717
Total assets				11,160,451
Segment liabilities	5,921,678	125,048	118,904	6,165,630
Reconciliation:				
Corporate and other unallocated liabilities				1,301,654
Total liabilities				7,467,284
Other segment information				
Investments in associates	75,440	30,078	–	105,518
Unallocated investments in associates				514,945
Unallocated investment in a joint venture				23,185
Capital expenditure	5,031	61	115,396	120,488
Unallocated amounts				4,975
Total capital expenditure*				125,463

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

4. REVENUE

Revenue represents: (1) an appropriate proportion of contract revenue of construction contracts under Build-Operate-Transfer (the "BOT") arrangements, Build-Own-Operate (the "BOO") arrangements, Engineering Procurement Construction (the "EPC") arrangements and other construction service projects, net of tax and government surcharges; (2) the revenue from operation of WTPs, RWTPs, WDPs, STPs or other municipal infrastructures under BOT arrangements, Transfer-Operate-Transfer (the "TOT") arrangements, and the provision of Operation and Maintenance services; and (3) financial income on financial receivables. The amount of each significant category of revenue during the six-month period ended 30 June 2017 is as follows:

	For the six-month period ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from construction services	**549,622**	433,204
Revenue from operating services	**298,069**	263,497
Financial income	**219,905**	205,485
	1,067,596	902,186

5. OTHER INCOME AND GAINS

	For the six-month period ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Government grants *(note a)*	**49,806**	41,320
Interest income from loans to third parties	**17,387**	–
Foreign exchange differences, net	**3,401**	–
Bank interest income	**1,989**	2,803
Investment income	**904**	2,797
Rental income less depreciation of investment properties	**204**	160
Others	**331**	73
	74,022	47,153

Note:

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

6. PROFIT BEFORE TAX

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

	Notes	For the six-month period ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Cost for construction services		**462,158**	355,984
Cost for operation services		**183,107**	168,691
Total of cost of sales		**645,265**	524,675
Depreciation of property, plant and equipment		**4,201**	3,602
Amortisation of intangible assets		**2,171**	249
Write-off trade receivables		**4,341**	–
Minimum lease payments under operating leases for buildings		**3,718**	2,939
Auditors' remuneration		**650**	480
Employee benefit expense (including directors' and chief executive's remuneration):			
Wages, salaries and allowances, social securities and benefits		**84,382**	71,414
Pension scheme contributions (defined contribution scheme)		**8,873**	7,657
Equity-settled share option expenses		**3,694**	7,154
Total employee benefit expense		**96,949**	86,225
Bank interest income	*5*	**(1,989)**	(2,803)
Interest income from loans to third parties	*5*	**(17,387)**	–
Government grants	*5*	**(49,806)**	(41,320)
Foreign exchange differences, net		**(3,401)**	974

7. INCOME TAX EXPENSE

Pursuant to The PRC Enterprise Income Tax Law Implementing Regulations (中華人民共和國企業所得稅法實施條例), most of the subsidiaries established in the PRC, engaged in the operations of wastewater treatment projects, are eligible for tax holiday of a three-year full exemption followed by a three-year half exemption commencing from their respective first year of generating operating revenue (the "3+3 Tax Holiday"). At 30 June 2017, these subsidiaries were already qualified for the 3+3 Tax Holiday or in the process of preparation and submission of the required documents to the respective tax authorities to apply for the 3+3 Tax Holiday.

Pursuant to Caishui 2011 No.58 Circular of the Ministry of Finance, the State Administration of Taxation, the General Administration of Customs on Issues Relating to Preferential Tax Policies for the Development of the Western Region (財政部、國家稅務總局、海關總署關於西部大開發稅收優惠政策問題的通知), certain subsidiaries operated in the western region of Mainland China were subject to a preferential corporate income tax rate of 15%, provided the revenues from principal activities comprise more than 70% of the total revenues in the year.

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

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

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong for the six-month period ended 30 June 2017 (six-month period ended 30 June 2016: 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-month period ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax		
— Mainland China	**19,819**	19,238
Deferred income tax	**26,056**	26,464
Income tax charge for the period	**45,875**	45,702

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

	For the six-month period ended 30 June			
	2017		2016	
	RMB'000	*%*	*RMB'000*	*%*
	(Unaudited)		(Unaudited)	
Profit before tax	**229,179**		167,679	
Income tax charge at the statutory income tax rate	**57,295**	**25.00**	41,920	25.00
Effect of the preferential income tax rate for some entities	**(4,631)**	**(2.02)**	(3,865)	(2.30)
Tax effect of tax losses not recognised	**1,967**	**0.86**	8,473	5.05
Tax effect of share of profit and loss of associates and a joint venture	**(8,756)**	**(3.82)**	(826)	(0.49)
Tax charge at the effective rate	**45,875**	**20.02**	45,702	27.26

The share of tax attributable to associates and a joint venture amounting to RMB16,753,000 (six-month period ended 30 June 2016: RMB720,000) is included in "Share of profit and loss of associates and a joint venture" in the interim condensed consolidated statement of profit or loss and other comprehensive income.

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

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

The share option that could have potentially dilutive impact on the basic earnings per share were issued in December 2014. No adjustment has been made to the basic earnings per share amounts presented for the six-month period ended 30 June 2017 in respect of a dilution as the share options outstanding had anti-dilutive effect on the basic earnings per share amounts presented.

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

	For the six-month period ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings:		
Profit for the period attributable to ordinary equity holders of the parent	**176,660**	112,979
	Number of Shares 30 June 2017 (Unaudited)	Number of Shares 30 June 2016 (Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	**2,067,515,000**	2,067,515,000

The Group did not issued any new share during the six-month period ended 30 June 2017.

9. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2017, the Group acquired property, plant and equipment with an aggregate cost amounting to approximately RMB35,222,000 (six-month period ended 30 June 2016: RMB1,337,000).

The property, plant and equipment with a net book value of approximately RMB145,000 were disposed of by the Group during the six-month period ended 30 June 2017 (six-month period ended 30 June 2016: Nil), resulting in a net loss on disposal of approximately RMB72,000 (six-month period ended 30 June 2016: Nil).

10. FINANCIAL RECEIVABLES

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Receivables for service concession arrangements	**7,422,589**	7,044,612
Receivables for BT arrangements	**–**	9,643
Net financial receivables	**7,422,589**	7,054,255
Portion classified as current	**(1,288,051)**	(1,268,065)
Non-current portion	**6,134,538**	5,786,190

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

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

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

At 30 June 2017, the Group's financial receivables with a carrying value of RMB4,343,634,000 (31 December 2016: RMB3,913,773,000) were pledged to secure certain bank loans granted to the Group.

11. TRADE AND BILLS RECEIVABLES

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

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

	30 June 2017 *RMB'000* (Unaudited)	31 December 2016 *RMB'000* (Audited)
Trade receivables:		
Receivables for urban water treatment	**432,655**	403,824
Receivables for water environment comprehensive remediation	**404,343**	346,310
	836,998	750,134
Bills receivable	**19,890**	15,074
	856,888	765,208

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

	30 June 2017 *RMB'000* (Unaudited)	31 December 2016 *RMB'000* (Audited)
Within 3 months	**260,804**	352,030
4 to 6 months	**98,115**	47,512
7 to 12 months	**198,272**	297,165
Over 12 months	**279,807**	53,427
	836,998	750,134

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

	30 June 2017 *RMB'000* (Unaudited)	31 December 2016 *RMB'000* (Audited)
Neither past due nor impaired	**530,239**	492,461
Past due but not impaired:		
Less than 3 months past due	**154,216**	106,473
4 to 6 months past due	**55,227**	47,512
Over 6 months past due	**97,316**	103,688
	836,998	750,134

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

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

At 30 June 2017, the Group's trade receivables with a carrying value of approximately RMB190,139,000 (31 December 2016: RMB126,559,000) were pledged to secure certain bank loans granted to the Group.

12. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Cash and bank balances	**909,458**	767,729
Less: Pledged deposits	**(94,416)**	(92,444)
Cash and cash equivalents	**815,042**	675,285
Cash and bank balances denominated in:		
— RMB	**763,304**	623,334
— United States dollars	**36,579**	23,484
— Hong Kong dollars	**15,159**	28,467
Cash and cash equivalents	**815,042**	675,285

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

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

As at 30 June 2017, the Group's pledged deposits with a carrying value of approximately RMB23,858,000 (31 December 2016: RMB24,517,000) were pledged to secure certain bank loans granted to the Group.

13. DIVIDEND

During the current interim period, a final dividend of RMB33,080,000 for the year ended 31 December 2016, at RMB1.6 cents per ordinary share based on 2,067,515,000 shares as at 25 May 2017, was approved by the annual general meeting and declared to the shareholders of the Company.

The board of directors did not recommend the payment of an interim dividend for the six-month period ended 30 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The year of 2017 is an important year for the country to implement the "13th Five-Year" plan, in which the national environmental industry has changed its focus from environmental pollution control to environment quality enhancement. The "Ten Articles on Water" (水十條) expressly stated that it will basically eliminate black and odorous water bodies in municipalities, provincial capitals and urban built-up areas in specifically designated cities by the end of 2017. In addition, there is a rapid development of the public-private-partnership ("PPP") mode, which has increased the project implementation rate year by year, whereas the treatment of black and odorous river and PPP project construction in sponge cities have motived the trillion level investments in the environment protection projects on water, which has triggered the tremendous development of the environmental industry. Meanwhile, with potential opportunity in the wastewater treatment markets in rural areas, the development strategy of urban-rural integration continues. The Belt and Road Forum for international cooperation was held on 16 May 2017 in Beijing. The countries along the Belt and Road positively participated in the cooperation with China. Accordingly, there will be very good opportunities for the Group to broaden overseas environmental protection market prospect.

DEVELOPMENT STRATEGIES AND FUTURE DEVELOPMENT

In the year of 2017, water environment protection industry enjoys a series of advantages: comprehensive reform in environment assessment system, comprehensive implementation of river chief system, consecutive approval and official implementation of a series of environment protection regulations as well as further promotion of the PPP project policy. At the same time, the control on environment protection becomes incessantly stringent with gradual enhancement on industry standard, increasing owners' requirements over the strength of environment protection enterprises comprehensively, while influx of different kinds of capital from various channels for participation and competition on the environment protection industry intensifying the competition over the projects has also posed severe challenges to market players.

With the above mentioned opportunities and despite of the intensified competition in the industry, the Group captured various acquisition and merger projects in the first half of 2017, including the acquisition of approximately 1.09% of equity interests in Protection (Asia) Water Treatment Holding Limited, 100% of equity interests in Hatlen Investment (Aus.) Pty Ltd, 100% of equity interests in Shandong Fengmin Water Co., Ltd.* (山東豐民水務有限公司) and 70% of equity interests in Wenzhou City Chuangyuan Water Co., Ltd* (温州市創源水務有限公司).

In addition, the Group acquired many PPP projects in the first half of 2017, including the new construction PPP project of Jinhai West Road and Haiyun Road utility tunnel in Nanhai New District, Weihai City, Shandong Province, the entire county domestic wastewater treatment facilities bundle PPP project in Jiaoling County, Meizhou City, Guangdong Province.

Technical strategies remain as the core of the Group's strategies. The Group commits to pursuing technological advancement through improving our innovation ability on science and technologies, and to achieving win-win development through a variety of collaboration such as project cooperation and strategic alliance. Meanwhile, by means of further deepening and strengthening the collaboration with high schools and scientific research institutions, the Group can motivate the combination of production and research, creating unprecedented advantages.

In view of business development strategy, the Group has fully captured the golden opportunity for development brought about by the environment protection policies implemented by the Chinese government. Through equity acquisition and merger, the Group will further expand its treatment capacity in the urban water treatment business. In terms of water environment comprehensive remediation and rural water improvement, by leveraging the PPP trend and other means such as bidding or joint bidding, the Group endeavours to maximize our acquisition of PPP projects in relation to high quality water environment comprehensive remediation and rural water treatment, so that market share can be enlarged and orders of relatively large-scaled project can be reserved with an aim to consolidate the foundation for the Group's development in the coming five to ten years.

In view of internal management strategy, the Group will continue to motivate the innovation of the Group's internal management. By further adjusting and optimizing all functional departments and business divisions, management duties of each functional departments can be reorganized, so as to give full play to the professional functions of the business divisions as well as to greatly boost the motivation of our staff, which would enhance our overall strengths and comprehensively strengthen our brand. Meanwhile, we actively implement talent training programmes to increase our attraction to talents as well as enhance our investment in the research and development of innovated technologies, in order to continuously increase and strengthen our competitive strengths.

* *For identification purposes only*

In the first half of 2017, the reserve for the Company's new projects continues to increase, and also the PPP project, which was acquired in the previous period, had its implementation expedited. The construction income increased accordingly. The growth rate of construction income from the next stage will therefore increase. The strategies of having external strategic alliance start to take effect and make a turnaround into benefits. For example, the execution of EPC agreements after making the bids of large-scaled PPP projects, the equity investment contribution to our results. In the coming two years, the Group plans to capture more business opportunities in the environment protection industry. Taking advantage of the opportunities brought about by new environment protection policies and the PPP mode, the Group can combine internal and external resources to increase more rapidly the Group's financial results and our position in the industry, and thus continuously bringing more values to the shareholders of the Company.

BUSINESS REVIEW

In the first half of 2017, the Group continued to execute the development strategy which was performed last year. In order to match the Group's strategy and marketing development, the Group continued to advance division reform, which means the divisions in charge of specific businesses. The principal business of the Group includes Urban Water Treatment, Water Environment Comprehensive Remediation, Rural Water Improvement, etc.

The scope of Urban Water Treatment includes constructions and operations in urban water treatment, reclaimed water treatment and usage, sludge disposal, water distribution, O&M (operation and maintenance of a water or wastewater treatment facility), etc. The Group has the overall industry chain in Urban Water Treatment, which is executed under the contracts of BOT, TOT, PPP, BOO, EPC and O&M.

The scope of Water Environment Comprehensive Remediation includes river harnessing and improvement, foul water body remediation, sponge city construction, pipeline network projects, urban comprehensive pipe tunnel, etc. The Group engages in and will pursue expanding market share in water environment comprehensive remediation, which is executed under the contracts of PPP and EPC.

The scope of Rural Water Improvement includes the construction and operation related to "the Construction of Beautiful Village" such as wastewater treatment, pipeline for collecting wastewater, rural living environment improvement, etc. The Group carried out this business in 2016, and will continue to expand market share in the related areas.

In the future, the Group will continuously pursue more market opportunities in the above mentioned three divisions by investing in new projects as well as merger and acquisition. The Company is very confident about the Group's prospects and future profitability.

1.1 Urban Water Treatment

As at 30 June 2017, the Group had entered into a total of 101 service concession arrangements projects, including 94 wastewater treatment plants, 3 water distribution plants, 3 sludge treatment plants and 1 reclaimed water treatment plant. Total daily treatment capacity for new projects secured for the six-month period ended 30 June 2017 was 500,000 tonnes, including wastewater treatment projects of 350,000 tonnes, water distribution projects of 150,000 tonnes. The Group will further expand its urban water treatment chain in the future.

As at 30 June 2017, the Group's total daily treatment capacity was 3,863,350 tonnes, representing a satisfied increase of approximately 15% as compared with the capacity of 3,363,350 tonnes as at 31 December 2016. The increase of the Group's service concession arrangements projects portfolio was a result of strong execution due to its market expansion and development strategy at beginning of the year.

Analysis of the Group's projects on hand as at 30 June 2017 is as follows:

	Daily wastewater treatment capacity	**Daily water distribution capacity**	**Daily reclaimed water treatment capacity**	**Daily sludge treatment capacity**	**Total**
(Tonnes)					
In operation	2,676,500	–	40,000	350	2,716,850
Not yet start operation/ Not yet transferred	935,000	211,300	–	200	1,146,500
Total	3,611,500	211,300	40,000	550	3,863,350
(Number of projects)					
In operation	71	–	1	1	73
Not yet start operation/ Not yet transferred	23	3	–	2	28
Total	94	3	1	3	101

	Number of projects	Treatment capacity *(Tonnes/Day)*	Actual processing volume during the six months ended 30 June 2017 *(Million Tonnes)*
Wastewater treatment services			
Henan	21	970,000	158.3
Shandong	45	1,304,500	125.2
Anhui	5	225,000	33.5
Jiangsu	5	82,000	10.9
Heilongjiang	5	400,000	52.5
Other provinces/municipalities*	13	630,000	24.7
	94	3,611,500	405.1
Water distribution services	3	211,300	–
Reclaimed water treatment services	1	40,000	2.3
Total	98	3,862,800	407.4
Sludge treatment services	3	550	–
Total	101	3,863,350	407.4

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

1.1.1 Operation Services

As at 30 June 2017, the Group had 71 wastewater treatment projects, 1 reclaimed water treatment project, and 1 sludge treatment project in operation in Mainland China. Total daily treatment capacity in operation of wastewater treatment plants, reclaimed water treatment plant, and sludge treatment plant as at 30 June 2017, reached 2,676,500 tonnes (31 December 2016: 2,451,500 tonnes), 40,000 tonnes (31 December 2016: 40,000 tonnes), and 350 tonnes (31 December 2016: 350 tonnes) respectively. For the six-month period ended 30 June 2017, the annualized utilization rate for wastewater and reclaimed water treatment plants in operation was approximately 85%. The actual average water treatment tariff for the six-month period ended 30 June 2017 was approximately RMB1.31 per tonne (year ended 31 December 2016: approximately RMB1.32 per tonne).The actual aggregate processing volume for the six-month period ended 30 June 2017 was 407.4 million tonnes (six-month period ended 30 June 2016: 342.8 million tonnes).

Total operation revenue of urban water treatment services recorded for the six-month period ended 30 June 2017 was RMB298.1 million (the six-month period ended 30 June 2016: RMB263.5 million), the corresponding increase was primarily due to an increase in commencement of operation of new water treatment projects through business combination and 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 recognizes 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 recognized by using the percentage-of-completion method.

For the six-month period ended 30 June 2017,construction revenue was recognized for 27 projects, including 21 waste water treatment plants, 3 water distribution plants, and 3 sludge treatment plants which were mainly located in Henan, Shandong and Heilongjiang provinces in Mainland China. Total construction revenue of those projects for the six-month period ended 30 June 2017 was RMB408.5 million (six-month period ended 30 June 2016: RMB433.2 million). The corresponding decrease was primarily due to a slight decrease in the project numbers during the main construction period. As at 30 June 2017, the total daily treatment capacity of the service concession arrangements plants, which was still in the construction stage, was 461,500 tonnes, including wastewater treatment plants of 250,000 tonnes, water distribution plants of 211,300 tonnes and sludge treatment plants of 200 tonnes respectively.

1.2 Water Environment Comprehensive Remediation

On 18 August 2016, the Group entered into a PPP project agreement and an operation service agreement in respect of the PPP project for water supply and drainage in the urban area of Rushan City, Shandong Province, after a public tender process. It is estimated that such project, with a total investment budget of approximately RMB481.4 million, has a service concession period of twenty-five years (comprising two years of construction and twenty-three years of operation). As at 30 June 2017, the project was under construction.

On 7 September 2016, the Group has successfully passed the competitive negotiation process and has been awarded the project contract in relation to the water environment treatment project in Tang River basin in Shancheng District, Hebi City, Henan Province, the PRC. It is estimated that such project, with a total government procurement budget of approximately RMB2,100.0 million, has a construction period of approximately six years (comprising three stages with two-year construction period for each stage). As at 30 June 2017, first stage of such project was under construction.

On 13 February 2017, the Group announced that the Group has successfully passed the competitive negotiation process and has been awarded the project contract in relation to the new construction PPP project of Jinhai West Road and Haiyun Road utility tunnel in Nanhai New District, Weihai City* (威海南海新區金海西路及海韻路綜合管廊新建工程PPP項目), which locates in the Weihai City, Shandong Province, the PRC. It is estimated that such project, with a total government procurement budget of approximately RMB808.0 million, has a construction period of approximately two years. As at 30 June 2017, the project was under construction.

Analysis of the Group's Water Environment Comprehensive Remediation projects on hand as at 30 June 2017 is as follows:

Project name	**Total investment amount** *(RMB million)*	**Contract time for the project**
Water Supply and Drainage PPP Project in the urban area of Rushan City, Shangdong Province	481.4	18 August 2016
Tang River Basin Water Environmental Treatment Project in Shancheng District, Hebi City, Henan Province	2,100.0	19 September 2016
Jinhai West Road and Haiyun Road Utility Tunnel in Nanhai New District, Weihai City	808.0	13 February 2017

As mentioned above, the Group had 3 water environment comprehensive remediation projects under construction during the six-month period ended 30 June 2017. For the six-month period ended 30 June 2017, total revenue of those projects was RMB108.1 million (six-month period ended 30 June 2016: RMB7.1 million), the corresponding increase was primarily due to the developing strategy set up for business of Water Environment Comprehensive Remediation in the year of 2016, and the strong execution of its market expansion.

1.3 Rural Water Improvement

On 4 August 2016, Yunan County Environmental Protection Bureau, Yunan Kangda Liangke Environment Treatment Co., Ltd.* (郁南康達亮科環境治理有限公司), and the Group initiated a PPP project agreement in respect of the PPP project after a competitive negotiation process. Since then, the Group further expanded to rural water improvement business. Such PPP project comprised subprojects of (i) the wastewater treatment facilities construction, (ii) the supporting pipeline networks construction, and (iii) comprehensive improvement of residential environment in the 15 exemplary central villages, which aims to build villages with ecological agriculture, ecological tourism and ecological cultural characteristic. It is estimated that such project, with a total investment budget of approximately RMB502.0 million, has a service concession period of thirty years (for detailed information please refer to the announcement of the Company dated 4 August 2016). As at 30 June 2017, the project was under construction.

* *For identification purposes only*

On 1 June 2017, the Water Department of Jiaoling County* (蕉嶺縣水務局), the Group and Hunan Provincial Architectural Design Institute (湖南省建築設計院), after a competitive negotiation process, entered into a PPP project agreement in respect of the PPP project for the domestic wastewater treatment in Jiaoling County, Meizhou City, Guandong Province, the PRC, which comprises of 6 sub-projects, which are the Wastewater Treatment Facilities and Ancillary Pipeline Network Construction Project in Guangfu Town* (廣福鎮污水處理設施及配套管網建設項目), the Wastewater Treatment Facilities and Ancillary Pipeline Network Construction Project in Lanfang Town* (藍坊鎮污水處理設施及配套管網建設項目), the Wastewater Treatment Facilities and Ancillary Pipeline Network Construction Project in Nanqi Town* (南礤鎮污水處理設施及配套管網建設項目), the Wastewater Treatment Facilities and Ancillary Pipeline Network Construction Project in Sanzhen Town* (三圳鎮污水處理設施及配套管網建設項目), the Wastewater Treatment Facilities and Ancillary Pipeline Network Construction Project in Wenfu Town* (文福鎮污水處理設施及配套管網建設項目), and the Village Wastewater Treatment Facilities and Ancillary Pipeline Network Construction Project* (村級污水處理設施及配套管網建設項目) in 200 villages in Jiaoling County. It is estimated that such project, with a total investment budget of approximately RMB187.0 million, has a service concession period of twenty-two years (for detailed information please refer to the announcement of the Company dated 1 June 2017).

Analysis of the Group's Rural Water Improvement projects on hand as at 30 June 2017 is as follows:

Project name	**Total investment amount** *(RMB million)*	**Contract time for the project**
Yunan County Entire County Domestic Wastewater Treatment Bundle PPP Project* (郁南縣整縣生活污水處理捆綁PPP項目)	502.0	4 August 2016
Jiaoling County Entire County Domestic Wastewater Treatment Facilities Bundle PPP Project* (蕉嶺縣生活污水處理設施全縣捆綁PPP項目)	187.0	1 June 2017

As mentioned above, the Group had 2 Rural Water Improvement projects under construction during the six-month period ended 30 June 2017. For the six-month period ended 30 June 2017, total revenue of those projects was RMB34.1 million (six-month period ended 30 June 2016: nil). The corresponding increase was not comparable due to that the commencement of construction work of Rural Water Improvement project was in the second half of 2016.

* *For identification purposes only*

FINANCIAL ANALYSIS

Revenue

For the six-month period ended 30 June 2017, the Group recorded a revenue of RMB1,067.6 million, representing an increase of approximately 18% compared to the previous corresponding period of RMB902.2 million. The increase was mainly due to the increase in construction revenue of RMB116.4 million, the increase in operation revenue of RMB34.6 million, and the increase in financial income of RMB14.4 million. The increase in construction revenue was mainly due to the increase in commencement of construction work for the Group's new BOT, PPP and EPC projects, especially due to the new projects of Water Environment Comprehensive Remediation and Rural Water Treatment, the increase in operation revenue was mainly due to the increase in commencement of operation of new BOT projects. The increase in financial income was mainly due to the increase in the Group's total water treatment capacity and the increased financial assets as well.

Cost of Sales

The Group's cost of sales for the six-month period ended 30 June 2017 amounted to RMB645.3 million, representing an increase of approximately 23% as compared to the previous corresponding period of RMB524.7 million. The increase was due to the increase in construction costs of RMB106.2 million and the increase in operation costs amounted to RMB14.4 million. The increase in construction costs was mainly due to the increase in commencement of construction work of new projects for water environment comprehensive remediation services and rural water improvement services. The increase in operation costs was in line with the increased daily treatment capacity in operation. Cost of sales mainly includes construction costs of RMB462.2 million and operation costs of water treatment plants of RMB183.1 million.

Gross Profit Margin

For the six-month period ended 30 June 2017, gross profit margin was approximately 40%, representing a decrease of 2 percentage points as compared to the previous corresponding period of approximately 42%. The decrease was mainly due to (i) the decrease of the construction margin caused by the high competitive environmental market, (ii) the increase of operation margin caused by the stable operation for the new commenced water treatment plants, (iii) the decrease in the proportion of financial income.

Other Income and Gains

The Group recorded other income and gains of RMB74.0 million for the six-month period ended 30 June 2017, representing an increase of approximately 57% as compared to the previous corresponding period of RMB47.2 million. The amount for this period primarily included government grants of RMB49.8 million, which was mainly comprised of VAT refund under CaiShui 2015 No. 78 and grants for environment protection, bank interest income of RMB2.0 million, interest income of RMB17.4 million from loans to third parties, and gains on foreign exchange transactions of RMB3.4 million.

Administrative Expenses

Administrative expenses for the six-month period ended 30 June 2017 was RMB135.6 million, representing an increase of approximately 29% as compared to the previous corresponding period of RMB105.4 million. The increase was mainly due to the increase in staff costs of RMB10.2 million which caused by the increase of companies operated in line with the Group's expansion plan, the increase in professional expense amounting to RMB6.9 million, and travelling expenses, related to the Group's development and subsidiary management amounting to RMB3.1 million.

Finance Costs

Finance costs for the six-month period ended 30 June 2017 mainly represented interests on interest-bearing bank borrowings and corporate bonds of RMB155.9 million, representing an increase of approximately 19% as compared to RMB131.4 million in the previous corresponding period. The increase in finance costs was mainly due to the increase of interest-bearing bank borrowings and corporate bonds in line with the increase in project portfolio. The average amount of interest-bearing bank borrowings and corporate bonds increased approximately RMB1,294.0 million and the average interest rate decreased to 5.19%.

Share of Profits and Losses of Associates

Share of profits and losses of associates for the six-month period ended 30 June 2017 was RMB36.3 million, representing a climbed increase as compared to RMB2.4 million for the previous corresponding period, primarily because 15% equity interest in the Group's associate Zhongyuan Asset Management Co., Ltd.* (中原資產管理有限公司) which was acquired on 30 September 2016 recognised a profit of RMB37.2 million. We have unified the basis for the preparation of the financial statements of associates and the Group.

Income Tax Expense

Income tax expense for the six-month period ended 30 June 2017 included the current PRC income tax of RMB19.8 million and deferred tax expenses of RMB26.1 million, compared to RMB19.2 million and RMB26.5 million for the previous corresponding period respectively. The Group's effective tax rate for the six-month period ended 30 June 2017 was about 20%, representing a decrease of 7 percentage points as compared with 27% for the last corresponding period, which was mainly due to the share of profits and losses of associates recognised was free of tax, and the decrease of tax effect of tax losses not recognised.

* *For identification purposes only*

Financial Receivables

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Receivables for service concession arrangements	**7,422,589**	7,044,612
Receivables for BT arrangements	**–**	9,643
Subtotal of financial receivables	**7,422,589**	7,054,255
Portion classified as current	**1,288,051**	1,268,065
Non-current portion	**6,134,538**	5,786,190

As at 30 June 2017, the Group's financial receivables was RMB7,422.6 million, representing an increase of approximately 5% as compared to RMB7,054.3 million as at 31 December 2016. The increase was primarily due to the increase in construction of the Group's service concession arrangements projects under BOT and PPP contracts and the acquisition of waste water treatment projects through business combination.

Trade and Bills Receivables

As at 30 June 2017, the Group's trade and bills receivables of RMB856.9 million (31 December 2016: RMB765.2 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 RMB91.7 million, mainly due to (i) the increase of urban water treatment projects receivables of approximately RMB28.8 million, (ii) the increase of water environment comprehensive remediation projects receivables of approximately RMB58.0 million, which included cash collected from Yucheng BT project of approximately RMB19.7 million, and EPC project receivables of approximately RMB77.7 million arose from the progress billing, and (iii) the increase of bills receivables of approximately RMB4.8 million collected from the government for the settlements of water treatment service.

Cash and Cash Equivalents

As at 30 June 2017, the Group's cash and cash equivalents of RMB815.0 million (31 December 2016: RMB675.3 million) increased by RMB139.7 million. The increase was due to the increase of Group's interest-bearing bank borrowings.

	For the six-month period ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Net cash flows used in/from operating activities[1]	**(132,315)**	167,546
Net cash flows used in/from investing activities	**(100,488)**	320,833
Net cash flows from/used in financing activities	**373,995**	(262,199)
Net increase in cash and cash equivalents	**141,192**	226,180
Effect of foreign exchange rate changes	**(1,435)**	2,156
Cash and cash equivalents at beginning of the period	**675,285**	1,291,770
Cash and cash equivalents at end of the period	**815,042**	1,520,106

Note:

(1) For the six-month period ended 2017 and 2016, the Group invested RMB389.7 million and RMB316.0 million, respectively, in the Group's BOT, TOT and PPP projects. Such investments were counted towards 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 in the Group's consolidated statement of financial position. For the six-month period ended 30 June 2017 and 2016, the Group would have incurred cash inflows of RMB257.4 million and cash inflows of RMB483.5 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 2017, the Group's trade and bills payables of RMB898.1 million (31 December 2016: RMB916.7 million) decreased by RMB18.6 million, which was due to the settlement in trade payables to sub-contractors.

Liquidity and Financial Resources

The Group's principal liquidity and capital requirements primarily relate to investments in urban water treatment, 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 2017, the carrying amount of the Group's cash and cash equivalents was RMB815.0 million, representing an increase of approximately RMB139.7 million as compared to RMB675.3 million as at 31 December 2016, which was mainly due to the net cash inflows from financing activities of RMB374.0 million, settlements of acquisition and investing payables amounting to RMB149.2 million and cash outflows of RMB99.8 million for purchases of property, plant and equipment and intangible assets from investing activities, repurchase of available-for-sale financial investments amounting to RMB149.8 million from investing activities, and the net cash out flows from operating activities of RMB132.3 million.

The Group's total interest-bearing bank borrowings amounted to RMB5,305.0 million as at 30 June 2017 (31 December 2016: RMB4,521.0 million), over 78% of which bear interest at floating rates.

The Group's total corporate bonds amounted to RMB947.8 million as at 30 June 2017 (31 December 2016: RMB1,246.8 million), which comprised corporate bonds issued on 18 December 2015, 30 June 2016 with an aggregate amount of RMB900.0 million, and RMB60.0 million respectively. All the corporate bonds bear interest at fixed rates.

As at 30 June 2017, the Group had banking facilities amounting to RMB56,561.8 million, of which RMB50,164.8 million have not been utilised. Of the unutilised banking facilities as at that date, RMB850.0 million were unrestricted facilities and the remaining RMB49,314.8 million were restricted facilities, which were mainly limited to be utilized on environment protection infrastructure and comprehensive management.

As at 30 June 2017, the gearing ratio (calculated by net debt divided by capital and net debt) is 62%, while the gearing ratio was 63% as at 31 December 2016. The decrease of gearing ratio is mainly due to the increase of the cash and cash equivalents.

Charges on the Group's Assets

Outstanding balance of interest-bearing bank and other borrowings as at 30 June 2017 was approximately RMB5,305.0 million, which were repayable within two months to twenty-eight years and were secured by financial receivables, property, plant and equipment, trade receivables and pledged deposits, of which the total amounts of the pledge of assets amounted to RMB4,886.7 million.

EMPLOYEES AND REMUNERATION POLICIES

The Group had 2,192 employees as at 30 June 2017. 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 2017, the Group did not have any significant contingent liabilities (31 December 2016: 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 2017, 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.

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 areas that lead to the success of the Company and in balancing the interests of shareholders, customers and employees, and the Board is devoted to ongoing enhancements of the efficiency and effectiveness of such principles and practices.

The Company has adopted the code provisions included in the corporate governance code (the "Corporate Governance Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The Board is of the view that during the six months ended 30 June 2017, the Company has complied with the Corporate Governance Code and there has been no deviation from the code provisions as set forth under the Corporate Governance Code.

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

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

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

INTERIM DIVIDEND

The Board did not recommend the payment of interim dividend for the six-month period ended 30 June 2017 (six months ended 30 June 2016: Nil).

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the six-month period ended 30 June 2017, none of the Directors is aware that the Directors or any substantial shareholders (within the meaning of the Listing Rules) of the Company and their respective associates have any business or interest in any business that competes or may compete with the business of the Group or have or may have any conflicts of interest with the Group.

PUBLIC FLOAT

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

EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to 30 June 2017.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") on 14 June 2014 (the "Adoption Date"). The following is a summary of principal terms of the Share Option Scheme:

On 19 December 2014, the Company granted a total of 84,500,000 options to subscribe for 84,500,000 shares in conformity with the Share Option Scheme to certain Directors and employees. During the six months ended 30 June 2017, 910,000 options were lapsed or cancelled, and no option was granted or exercised under the Share Option Scheme. The options granted shall vest and become exercisable within one year from the relevant date of vesting in three tranches in the proportion of 30%, 30% and 40% at the end of the 12th, 24th and 36th month after the date of grant, unless otherwise determined by the Company at its discretion in exceptional circumstances.

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

Name of grantee	Date of grant	Closing Price as at the date of grant of options *(HK$)*	Exercise price per share *(HK$)*	Number of options: Outstanding as at 1 January 2017	Granted during the Period	Exercised during the Period	Cancelled/ lapsed during the Period	Outstanding as at 30 June 2017	Exercise period *(Note 1)*
Director									
Zhang Weizhong	19/12/2014	3.340	3.386	–	–	–	–	–	A
(also the chief executive officer)				1,950,000	–	–	–	1,950,000	B
				2,600,000	–	–	–	2,600,000	C
Sub-total				4,550,000	–	–	–	4,550,000	
Liu Zhiwei	19/12/2014	3.340	3.386	–	–	–	–	–	A
				1,650,000	–	–	–	1,650,000	B
				2,200,000	–	–	–	2,200,000	C
Sub-total				3,850,000	–	–	–	3,850,000	
Gu Weiping	19/12/2014	3.340	3.386	–	–	–	–	–	A
				1,500,000	–	–	–	1,500,000	B
				2,000,000	–	–	–	2,000,000	C
Sub-total				3,500,000	–	–	–	3,500,000	
Wang Litong	19/12/2014	3.340	3.386	–	–	–	–	–	A
				1,500,000	–	–	–	1,500,000	B
				2,000,000	–	–	–	2,000,000	C
Sub-total				3,500,000	–	–	–	3,500,000	
Wang Tianci	19/12/2014	3.340	3.386	–	–	–	–	–	A
				750,000	–	–	–	750,000	B
				1,000,000	–	–	–	1,000,000	C
Sub-total				1,750,000	–	–	–	1,750,000	
Other employees (in aggregate)	19/12/2014	3.340	3.386	–	–	–	–	–	A
				14,160,000	–	–	(390,000)	13,770,000	B
				18,880,000	–	–	(520,000)	18,360,000	C
Sub-total				33,040,000	–	–	(910,000)	32,130,000	
Total				50,190,000	–	–	(910,000)	49,280,000	

Note:

1. The respective exercise periods of the share options granted are as follows:

   A: 19 December 2015 to 18 December 2016

   B: 19 December 2016 to 18 December 2017

   C: 19 December2017 to 18 December 2018

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

AUDIT COMMITTEE AND REVIEW OF THE INTERIM RESULTS

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

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2017. 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 2017 has also been reviewed by the Company's auditor, Ernst & Young, in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by International Auditing and Assurance Standards Board.

REMUNERATION COMMITTEE

The Company has established a remuneration committee on 30 October 2013 (the "Remuneration Committee") with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code. The primary duties of the Remuneration Committee are to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objects and make recommendations to the Board on the remuneration package of individual executive Directors and senior management. The Remuneration Committee currently consists of three members, namely Mr. Chang Qing, Mr. Gu Weiping and Mr. Peng Yongzhen, and Mr. Chang Qing is the chairman of the Remuneration Committee.

NOMINATION COMMITTEE

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

The Board had adopted a board diversity policy aiming to set out the approach to achieve the diversity of members of the Board to enhance the effectiveness of the Board.

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 2017.

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

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries 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 HKEx 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 2017 will be published on the aforesaid websites of the HKEx 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
Chairman
Mr. Zhao Juanxian (alias, Zhao Junxian)

Hong Kong, 29 August 2017

As at the date of this announcement, the Board comprises 9 Directors, namely Mr. ZHAO Juanxian (alias, ZHAO Junxian), Mr. ZHANG Weizhong, Ms. LIU Zhiwei, Mr. GU Weiping, Mr. WANG Litong and Mr. WANG Tianci as executive Directors; and Mr. TSUI Yiu Wa Alec, Mr. PENG Yongzhen and Mr. CHANG Qing as independent non-executive Directors.