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

2016
Annual Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Zhuang Ping (resigned on 31 March 2017)

Independent Non-executive Directors

Mr. Tsui Yiu Wa Alec
Mr. Peng Yongzhen
Mr. Chang Qing (appointed on 8 January 2016)
Mr. Yuan Shaoli (resigned on 8 January 2016)

AUDIT COMMITTEE

Mr. Tsui Yiu Wa Alec (Chairman)
Mr. Peng Yongzhen
Mr. Chang Qing (appointed on 8 January 2016)
Mr. Yuan Shaoli (resigned on 8 January 2016)

REMUNERATION COMMITTEE

Mr. Chang Qing (Chairman)
(appointed on 8 January 2016)
Mr. Gu Weiping
Mr. Peng Yongzhen
Mr. Yuan Shaoli (Chairman)
(resigned on 8 January 2016)

NOMINATION COMMITTEE

Mr. Zhao Juanxian (alias, Zhao Junxian) (Chairman)
Mr. Zhang Weizhong
Mr. Tsui Yiu Wa Alec
Mr. Peng Yongzhen
Mr. Chang Qing (appointed on 8 January 2016)
Mr. Yuan Shaoli (resigned on 8 January 2016)

COMPANY SECRETARY

Mr. Cheng Wing Hong

AUTHORISED REPRESENTATIVES

Mr. Zhang Weizhong
Ms. Liu Zhiwei

REGISTERED OFFICE

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

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

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISERS

As to Hong Kong law:
Luk & Partners
Unit 2001, Level 20
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

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

COMPLIANCE ADVISER

TC Capital Asia Limited (ceased on 30 April 2016)
Suites 1903–4
19/F, Tower 6
The Gateway, Harbour City
9 Canton Road
Tsim Sha Tsui
Kowloon
Hong Kong

PRINCIPAL BANKS

Industrial and Commercial Bank of China
Chongqing Rural Commercial Bank
China Merchants Bank
Shanghai Pudong Development Bank
China CITIC Bank

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

STOCK CODE

6136

COMPANY WEBSITE

http://www.kangdaep.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

During the year, we have completed strategic transformation and realized a considerable achievement. On behalf of the board (the "Board") of directors (the "Directors") of Kangda International Environmental Company Limited (the "Company") together with its subsidiaries (collectively the "Group"), I am pleased to present the annual report of the Group for the year ended 31 December 2016 to you.

RESULTS REVIEW

During the year 2016, thanks to the dedicated hard work of all of our employees, we recorded encouraging results under the external condition of fierce peer competition. During the year ended 31 December 2016, the Group achieved a revenue of RMB1,926.5 million, representing an increase of approximately 5% as compared to the year 2015. During the year ended 31 December 2016, profit attributable to equity shareholders of the Company (the "Shareholders") was RMB334.6 million, representing an increase of approximately 3% as compared to the year 2015, which is equivalent to basic earnings per share of RMB16.18 cents.

As at 31 December 2016, the Group entered into a total of 96 service concession arrangements projects, including 90 wastewater treatment projects, 2 water distribution projects, 3 sludge treatment projects and 1 reclaimed water treatment project, representing an increase of approximately 26% as compared to 76 service concession arrangements projects as at 31 December 2015. As at 31 December 2016, the Group's total daily treatment capacity was approximately 3,363,350 tonnes, representing an increase of approximately 20% as compared to the Group's daily treatment capacity of approximately 2,807,800 tonnes as at 31 December 2015.

During the year 2016, the Group has successfully secured certain Public-Private Partnership (the "PPP") projects, including the Water Supply and Drainage PPP Project in the urban area of Rushan City, Shandong Province, and the Guangdong Province Yunan County Entire County Domestic Wastewater Treatment Bundle PPP Project.

INDUSTRY DEVELOPMENT

2016 marked the commencement of "13th Five-Year" Plan of China. During the "13th Five-Year" period, investment to the environmental protection industry in China will exceed RMB 15 trillion. Focus of the industry development shifted from control of environment pollution to improvement of environmental quality. Water Ten Plan (水十條) explicitly proposed to substantially eliminate foul water body in built-up areas of municipalities, provincial capitals and city specifically designated in the state plan by the end of 2017. In addition, the PPP model developed rapidly with its rate of implementation increasing year by year. Construction for foul water river treatment and sponge city PPP projects drove investment of trillions into environmental projects on water environment, and this led to soaring growth of the environmental protection industry.

DEVELOPMENT STRATEGY AND FUTURE OUTLOOK OF THE GROUP

The environmental protection industry in China is policy-driven. We will take full advantage of the golden development opportunities brought about by the environmental protection policies implemented by the central government, to obtain as many quality water environmental projects as possible under such favorable environment for PPP, to increase our market shares and secure orders from projects of larger scale in order to establish solid foundation for the development of the Group in the next five to ten years. Under vigorous changes in the environmental protection market, by leveraging the Group's professional experience in the sewage treatment industry, the PPP operation model will become one of our major business model in addition to the established Build-Operate-Transfer (the "BOT") and Transfer-Operate-Transfer (the "TOT") operation models. Meanwhile, we are actively establishing strategic collaborative partnership with local governments and regional state-owned enterprises to achieve mutual advantages by jointly establishing regional environmental protection entities. We have successfully opened up an advantageous market in Henan Province and Jiangxi Province. The Group will also continue to expand both upstream and downstream along the water industrial chain and engage in the businesses of sludge disposal in water supply, recycling of reclaimed water and industrial wastewater treatment etc. We will continuously promote innovation of internal management of the Group and enhance motivation by adequate redesignation of staff to reinforce our overall capability. We will enhance our branding comprehensively, implement a talent cultivation program, improve talent introduction and increase investment in research and development for technology innovation, so as to constantly enhance our competitive advantages.

To conclude, the opportunities are greater than the challenges in 2017, and we firmly believe the year of 2017 will be a year of rapid development for the Group with the future development of the environmental protection industry.

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

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

Hong Kong, 30 March 2017

DEVELOPMENT STRATEGIES AND FUTURE DEVELOPMENT

Water Environmental protection industry enjoys a series of advantages in 2016: comprehensive reform in environment assessment system; fully implementation of river supervisor system; approval and official implementation of a series of environmental protection regulations; active promotion of PPP project policy by the country. At the same time, the control of environmental protection is becoming more stringent; owners demand for the overall strength of the environmental protection industry is increasing; different kinds of capital from various segment influx to take part in the competition in environmental protection; and the competition of project being intensified posed difficult challenges to the market players.

While challenges and opportunities co-exist in the industry, the Group's Urban Water Treatment business has acquired many new projects in 2016, including Shandong Province Dongping County Second Sewage Treatment Plant BOT Project, Xuzhou City Feng County Urban Area Wastewater Treatment Plant Phase III BOT project, Hebei Province Dacheng County Wastewater Treatment Plant Phase II BOT project, Sanmenxia City Shanzhou District Industrial Cluster Region Water Distribution Plant BOT Project, Tianjin City Ninghe District Urban Wastewater Treatment Plant Phase I & II Upgrade and Reconstruction Project, Tianjin City Ninghe District Wastewater Treatment Plant Sludge Treatment Station BOT project, Shandong Province Feicheng City Bianyuan Wastewater Treatment Plant TOT Project and Liaoning Province Shenyang City Coastal Economic Zone Wastewater Treatment Plant TOT Project.

In addition, the Group acquired 95% of the equity interests in Qishan County Dayuan Sewage Treatment Co., Ltd.*(岐山縣大源污水處理有限責任公司). Following the acquisition of 90% of the equity interests in the seven companies held by Shandong Guohuan Industrial Investment Co., Ltd.* (山東國環產業投資有限公司) by the Group in 2014 and 2015 respectively, the Group continued to acquire 9% of the equity interests in the aforesaid companies in the first half of 2016. It also acquired 100% of the equity interests in Qitaihe Wanxinglong Water Co., Ltd.* (七台河萬興隆水務有限責任公司) and 100% equity interests in Meiling Environmental Science and Technology (Zibo) Co., Ltd. (美陵環境科技(淄博)有限公司) in 2016.

Moreover, the Group participated in many PPP projects in 2016, including Water Supply and Drainage PPP Project in the urban area of Rushan City, Shandong Province and Guangdong Province Yunan County Entire County Domestic Wastewater Treatment Bundle PPP Project.

The Group still puts great emphasis on the technology-based strategies. The Group commits to pursuing technological advancement through improving our scientific innovation ability and to achieve win-win development through a variety of collaboration such as project cooperation and strategy alliance. In April 2016, the Group formed an associate with the top-notch institution of water environment treatment in the PRC, 702 Research Institute of China Shipbuilding Industry Corporation* (中國船舶重工集團公司第七〇二研究所), by means of equity acquisition, so as to maximize the Group's technological advantages over water environment treatment.

Regarding business development strategy, the Group will continue to facilitate its transformation from a provider of urban water treatment services to an urban environmental and comprehensive treatment solutions provider, focusing on water environment comprehensive remediation, including river harnessing and improvement, foul water body remediation, sponge city construction, urban comprehensive pipeline tunnel, etc. Meanwhile, urban water treatment business will rapidly expand to the other segments of water industrial chain to speed up the accumulation of project reserves, with a view to laying a development foundation for the Group in the next five to ten years.

* *For identification purposes only*

As for internal management strategy, the Group continues to advance division reform and bring business divisions' initiative and professionalism into full play with independent accounting. Urban Water Treatment Division, Water Environment Comprehensive Remediation Division and Rural Water Improvement Division are currently the main business units of the Group.

In the coming two years, the Group plans to seize more business opportunities in the environmental market, and take advantage of the opportunities brought by the new environmental policies and the PPP model to integrate the Group's external and internal resources, so as to rapidly improve the financial results and enhance the industry position of the Group, continuously bringing greater value to the shareholders.

BUSINESS REVIEW

In the year 2016, the Group was in the strategic transforming period. In order to match the Group's strategy and marketing development, the Group continued to advance division reform, which means the divisions are 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, Engineering Procurement Construction (the "EPC"), and O&M.

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

* *For identification purposes only*

1.1 Urban Water Treatment

As at 31 December 2016, the Group had entered into a total of 96 service concession arrangements projects, including 90 wastewater treatment plants, 2 water distribution plants, 3 sludge treatment plants and 1 reclaimed water treatment plant. Total daily treatment capacity for new projects secured for the year ended 31 December 2016 was 555,550 tonnes, including wastewater treatment projects of 485,000 tonnes, water distribution projects of 30,000 tonnes, sludge treatment plants of 550 tonnes, and reclaimed water treatment plant of 40,000 tonnes. The Group further carried out the sludge treatment and reclaimed water treatment business since 2016, for a purpose of expanding Group's wastewater treatment chain.

As at 31 December 2016, the Group's total daily treatment capacity was 3,363,350 tonnes, representing a satisfied increase of approximately 20% as compared with the capacity of 2,807,800 tonnes as at 31 December 2015. 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 31 December 2016 is as follows:

	Daily wastewater treatment capacity	Daily water distribution capacity	Daily reclaimed water treatment capacity	Daily sludge treatment capacity	Total
(Tonnes)					
In operation	2,451,500	–	40,000	350	2,491,850
Not yet start operation/ Not yet transferred	810,000	61,300	–	200	871,500
Total	3,261,500	61,300	40,000	550	3,363,350
(Number of projects)					
In operation	65	–	1	1	67
Not yet start operation/ Not yet transferred	25	2	–	2	29
Total	90	2	1	3	96

	Number of projects	Treatment capacity (Tonnes/Day)	Actual processing volume during the year ended 31 December 2016 (Million Tonnes)
Henan	20	950,000	282.1
Shandong	45	1,304,500	233.0
Anhui	5	225,000	70.7
Jiangsu	5	82,000	22.2
Heilongjiang	5	400,000	76.4
Other provinces/municipalities*	10	300,000	28.2
	90	3,261,500	712.6
Water distribution services	2	61,300	–
Reclaimed water treatment services	1	40,000	0.3
Total	93	3,362,800	712.9
Sludge treatment services	3	550	–
Total	96	3,363,350	712.9

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

1.1.1 Operation Services

As at 31 December 2016, the Group had 65 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 31 December 2016, reached 2,451,500 tonnes (31 December 2015: 2,134,500 tonnes), 40,000 tonnes (31 December 2015: Nil), and 350 tonnes (31 December 2015: Nil) respectively. For the year ended 31 December 2016, the annualized utilisation rate for wastewater and reclaimed water treatment plants in operation was approximately 85%. The actual average water treatment tariff for the year ended 31 December 2016 was approximately RMB1.32 per tonne (year ended 31 December 2015: approximately RMB1.3 per tonne). The actual aggregate processing volume for the year ended 31 December 2016 was 712.9 million tonnes (year ended 31 December 2015: 642.8 million tonnes).

Total operation revenue of urban water treatment services recorded for year ended 31 December 2016 was RMB535.7 million (year ended 31 December 2015: RMB549.1 million), the corresponding decrease was primarily due to the new VAT regulations, "Notice on the Issuing of the Catalogue of Value-Added Tax Preferences for Products and Labor Services Involving the Comprehensive Utilization of Resources" (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) issued by the Ministry of Finance and the State Administration of Taxation of the PRC (the "CaiShui [2015] No. 78"), which was implemented since 1 July 2015.

1.1.2 Construction Services

The Group entered into a number of service concession arrangements under BOT and PPP contracts in respect of 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, PPP and EPC projects is recognised by using the percentage-of-completion method.

For the year ended 31 December 2016, construction revenue was recognized for 27 projects, including 22 wastewater treatment plants, 2 water distribution plants, and 3 sludge treatment plants which were mainly located in Henan and Shandong provinces in Mainland China. Total construction revenue of those projects for the year ended 31 December 2016 was RMB728.4 million (year ended 31 December 2015: RMB684.9 million), due to an increase in commencement of construction work of new BOT and PPP projects. As at 31 December 2016, the total daily treatment capacity of these service concession arrangements plants, which was still in the construction stage, was 391,500 tonnes, including wastewater treatment plants of 330,000 tonnes, water distribution plants of 61,300 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).

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 31 December 2016, first stage of such project was under construction.

Analysis of the Group's Water Environment Comprehensive Remediation projects on hand as at 31 December 2016 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

As mentioned above, the Group had 2 water environment comprehensive remediation projects under construction during the year ended 31 December 2016. For the year ended 31 December 2016, total revenue of those projects was RMB144.5 million (year ended 31 December 2015: RMB261.0 million), the corresponding decrease was not comparable primarily due to the Group finalised the Wendeng BT project in 2015 and entered into new water environment comprehensive remediation projects in 2016.

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 an 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. The 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 31 December 2016, the Yunan PPP project was still in the construction stage. The total revenue recorded for the project was RMB115.4 million.

FINANCIAL ANALYSIS

Revenue

For the year ended 31 December 2016, the Group recorded a revenue of RMB1,926.5 million, representing an increase of approximately 5% compared to the previous corresponding period of RMB1,836.5 million. The increase was mainly due to the increase in construction revenue of RMB37.6 million and the increase in financial income of RMB65.8 million, despite of the decrease in operation revenue of RMB13.4 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, while the decrease in operation revenue was mainly due to the Value-Added Tax effect regarding CaiShui [2015] No. 78 implemented since 1 July 2015. 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 year ended 31 December 2016 amounted to RMB1,103.2 million, representing an increase of approximately 15% as compared to the previous corresponding period of RMB962.6 million. The increase was due to the increase in construction costs of RMB120.1 million and the increase in operation costs amounted to RMB20.5 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 RMB762.2 million and operation costs of water treatment plants of RMB341.0 million.

Gross Profit Margin

For the year ended 31 December 2016, gross profit margin was approximately 43%, representing a decrease of 5 percentage points as compared to the previous corresponding period of approximately 48%. The decrease was mainly due to (i) the decrease of the construction margin caused by the high margin of the finalised Wendeng BT in 2015, and the construction margin of the new projects in 2016 is at the reasonable level, (ii) the decrease of operation margin caused by the influence from value-added tax and surcharges under CaiShui [2015] No. 78, and (iii) the increase in the proportion of financial income.

Other Income and Gains

The Group recorded other income and gains of RMB127.1 million for the year ended 31 December 2016, representing an increase of approximately 100% as compared to the previous corresponding period of RMB63.4 million. The amount for this period primarily included government grants of RMB104.1 million, which was mainly comprised of VAT refund under CaiShui [2015] No. 78 and grants for environment protection, bank interest income of RMB8.7 million, interest income of RMB8.5 million from loans to third parties, and investment income of RMB3.9 million.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the year ended 31 December 2016 was RMB11.0 million, representing an increase of approximately 10% to RMB10.0 million last year, which was as a result of continuously ongoing market expansion strategy.

Administrative Expenses

Administrative expenses for the year ended 31 December 2016 was RMB235.8 million, representing an increase of approximately 12% as compared to the previous corresponding period of RMB210.0 million. The increase was mainly due to the increase in staff costs of RMB19.5 million, and travelling expenses related to the Group's development and subsidiary management amounting to RMB6.0 million.

Other Expenses

Other expenses for the year ended 31 December 2016 was RMB23.5 million, which included the environmental equipment donation to Shangqiu City Government of RMB17.2 million, foreign exchanges losses of RMB4.5 million, and provision for impairment of other receivables of RMB1.8 million.

Finance Costs

Finance costs for the year ended 31 December 2016 mainly represented interests on interest-bearing bank borrowings and corporate bonds of RMB269.5 million, representing an increase of approximately 12% as compared to RMB240.5 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 RMB1,105.5 million and the average interest rate decreased to 5.11%.

Share of Profits and Losses of Associates

Share of profits and losses of associates was RMB28.1 million, representing a climbed increase of approximately 473% as compared to RMB4.9 million the previous corresponding period, primarily due to the Group's associate Zhongyuan Asset Management Co., Ltd.* (中原資產管理有限公司), in which 15% interest share recorded profit of RMB13.1 million, and the Group's associate Nanchang Qingshanhu Sewage Treatment Co., Ltd.* (南昌青山湖污水處理有限公司), in which 20% interest share recorded profit of RMB14.1 million.

Share of Loss of A Joint Venture

The Group holds 49% equity interest in Jiangxi Kanggan Environmental Technology Co., Ltd.* (江西康贛環保科技有限公司), which engages in the treatment and processing of waste water in Nanchang city of Mainland China. The joint venture was incorporated in 2016 and carried out business for the first year. Share of loss of a joint venture for the year ended 31 December 2016 was RMB1.3 million.

Income Tax Expense

Income tax expense for the year ended 31 December 2016 included the current PRC income tax of RMB37.4 million and deferred tax expenses of RMB54.0 million, compared to RMB33.2 million and RMB75.3 million for the previous corresponding period respectively. The Group's effective tax rate for the year ended 31 December 2016 was about 21%, representing a decrease of 3 percentage points as compared with 24% for the last corresponding period, which was mainly due to the share of profits and losses of associates recognised was free of tax.

Financial Receivables

	As at	
	31 December 2016 RMB'000	31 December 2015 RMB'000
Receivables for service concession arrangements	**7,044,612**	5,917,936
Receivables for BT arrangements	**9,643**	307,300
Subtotal of financial receivables	**7,054,255**	6,225,236
Portion classified as current	**(1,268,065)**	(1,375,168)
Non-current portion	**5,786,190**	4,850,068

As at 31 December 2016, the Group's financial receivables was RMB7,054.3 million, representing an increase of approximately 13% as compared to RMB6,225.2 million as at 31 December 2015. 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 wastewater treatment projects through business combination.

Construction contracts

As at 31 December 2016, construction contracts, which are gross amounts due from customers for contract work, was RMB188.4 million, representing an increase of approximately 4% as compared to RMB181.4 million as at 31 December 2015. The increase was primarily due to the increase in construction from Tang River project of water environment comprehensive remediation in Hebi City, Henan Province.

Trade and Bills Receivables

As at 31 December 2016, the Group's trade and bills receivables of RMB765.2 million (31 December 2015: RMB622.0 million) mainly arose from the provision of wastewater treatment and sludge treatment services for urban water treatment projects as well as construction services for the Group's water environment comprehensive remediation projects. The balance increased by RMB143.2 million, mainly due to (i) the increase of urban water treatment projects receivables of approximately RMB177.5 million, (ii) the increase of water environment comprehensive remediation projects receivables of approximately RMB120.6 million, which included BT project receivables of approximately RMB25.2 million arose from repurchase and settlement of BT projects, and EPC project receivables of approximately RMB95.4 million arose from the progress billing of Tang River project, and (iii) the decrease of bills receivables of approximately RMB154.9 million caused by bills endorsement and discount.

Prepayments, Deposits and Other Receivables

As at 31 December 2016, the Group's prepayments, deposits and other receivables of RMB1,051.0 million (31 December 2015: RMB334.5 million) increased by RMB716.5 million, mainly arose from the increase in loans to third parties of approximately RMB518.4 million according to the business acquisition and construction contract, deposits paid for the Group's new projects through business acquisition of approximately RMB104.6 million, and other operational receivables of approximately RMB188.2 million.

Cash and Cash Equivalents

As at 31 December 2016, the Group's cash and cash equivalents of RMB675.3 million (31 December 2015: RMB1,291.8 million) decreased by RMB616.5 million. The decrease was due to two main reasons: on one hand the Group carried out some investing activities and acquisitions in line with the marketing strategy, on the other hand the Group enhanced the management of cash and cash equivalents to keep the balance on more reasonable level.

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Net cash flows used in operating activities[1]	**(199,583)**	(29,985)
Net cash flows used in investing activities	**(1,081,231)**	(327,480)
Net cash flows from financing activities	**655,521**	899,230
Net increase in cash and cash equivalents	**(625,293)**	541,765
Effect of foreign exchange rate changes	**8,808**	2,722
Cash and cash equivalents at beginning of the period	**1,291,770**	747,283
Cash and cash equivalents at end of the period	**675,285**	1,291,770

Note:

(1) For the year ended 31 December 2016 and 2015, the Group invested RMB540.4 million and RMB443.1 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 year ended 31 December 2016 and 2015, the Group would have incurred cash inflows of RMB340.8 million and cash inflows of RMB413.1 million, respectively, if the Group's investments in BOT, TOT and PPP activities were not accounted for as cash flows used in operating activities.

Trade and Bills Payables

As at 31 December 2016, the Group's trade and bills payables of RMB916.7 million (31 December 2015: RMB768.0 million) increased by RMB148.7 million, which was in line with the Group's construction work carried out and settlements.

Other Payables and Accruals

As at 31 December 2016, the Group's other payables and accruals of RMB263.1 million (31 December 2015: RMB201.8 million) increased by RMB61.3 million, which was mainly due to the consideration payables for new projects through business acquisition and other operational payables.

Liquidity and Financial Resources

The Group's principal liquidity and capital requirements primarily relate to investments in urban water treatment and water environment comprehensive remediation projects, merger and acquisition of subsidiaries, costs and expenses related to the operation and maintenance of the Group's facilities, working capital and general corporate purpose.

As at 31 December 2016, the carrying amount of the Group's cash and cash equivalents was RMB675.3 million, representing a decrease of approximately RMB616.5 million as compared to RMB1,291.8 million as at 31 December 2015, which was mainly due to the net cash inflows from financing activities of RMB655.5 million, settlements of acquisition and investing payables amounting to RMB860.2 million and cash outflows of RMB518.4 million for loans to third parties from investing activities, and the net cash outflows from operating activities of RMB199.6 million.

The Group's total interest-bearing bank borrowings amounted to RMB4,521.0 million as at 31 December 2016 (31 December 2015: RMB3,890.0 million), over 79% of which bear interest at floating rates.

The Group's total corporate bonds amounted to RMB1,246.8 million as at 31 December 2016 (31 December 2015: RMB885.6 million), which comprised corporate bonds issued on 18 December 2015, 30 June 2016, and 7 December 2016, with an aggregate amount of RMB900.0 million, RMB60.0 million, and RMB300.0 million respectively. All the corporate bonds bear interest at fixed rates. Detailed information about the corporate bonds please refer to the note 28 to the financial statements.

As at 31 December 2016, the Group had banking facilities amounting to RMB59,341.9million, of which RMB53,756.3 million have not been utilised. Of the unutilised banking facilities as at that date, RMB3,956.3 million were unrestricted facilities and the remaining RMB49,800.0 million were restricted facilities, which were mainly limited to be utilized on environment protection infrastructure and comprehensive management.

As at 31 December 2016, the gearing ratio (calculated by net debt divided by capital and net debt) is 63%, while the gearing ratio was 57% as at 31 December 2015. The increase of gearing ratio is mainly due to the increase of the interest-bearing bank borrowings and issuance of corporate bonds for the new investments and acquisitions.

Charges on the Group's Assets

Outstanding balance of interest-bearing bank and other borrowings as at 31 December 2016 was approximately RMB4,521.0 million, which were repayable within one month to seventeen years and were secured by financial receivables, property, plant and equipment, investment properties, trade receivables and pledged deposits, of which the total amounts of the pledge of assets amounted to RMB4,087.7 million.

Capital Expenditure

During the year ended 31 December 2016, the Group's total capital expenditure were RMB1,590.9 million, compared to RMB878.2 million in 2015. The increase was mainly due to the RMB696.6 million spent on construction and acquisition of BOT and PPP projects and the RMB865.3 million represented the consideration for acquisition of equity interests in subsidiaries, associates, and joint venture.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

(a) On 1 September 2016, Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd.* (重慶康達環保產業(集團)有限公司, "Chongqing Kangda"), an indirectly wholly-owned subsidiary of the Company, entered into a share purchase agreement with Chongqing Kangda Investment Co., Ltd.* (重慶康達投資有限公司) ("Chongqing Kangda Investment") for the acquisition of 15% equity interests held by Chongqing Kangda Investment in Zhongyuan Asset Management Co., Ltd.* (中原資產管理有限公司, "Zhongyuan Asset") for an aggregate consideration of RMB450.0 million.

Further details of the transaction are set out in the Company's announcements dated 1 September 2016 and 30 September 2016.

(b) On 15 October 2016, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, entered into a share purchase agreement with Harbin Wanxinglong Industrial Development Co., Ltd.* (哈爾濱萬興隆實業發展有限公司) ("Harbin Wanxinglong"), for the acquisition of 100% equity interests held by Harbin Wanxinglong of Qitaihe Wanxinglong Water Co., Ltd.* (七台河萬興隆水務有限責任公司) ("Qitaihe Wanxinglong"). The consideration is RMB150.0 million, including the consideration for 100% of the equity interest in Qitaihe Wanxinglong, amounted to approximately RMB116.2 million, and the liabilities of Qitaihe Wanxinglong to be assumed by Chongqing Kangda, amounted to approximately RMB33.8 million. The daily treatment capacity gained through acquisition of Qitaihe Wanxinglong is 50,000 tonnes for wastewater treatment and 40,000 tonnes for reclaimed water.

Further details of the transaction are set out in the Company's announcement dated 16 October 2016. As at the date of this annual report, the transaction has been completed.

Save as disclosed above, the Group had no significant investments, acquisitions and disposals of subsidiaries and associated companies during the year ended 31 December 2016.

EMPLOYEES AND REMUNERATION POLICIES

The Group had 1,971 employees as at 31 December 2016. The remuneration package of the Group is generally determined with reference to market conditions and individual performance. Salaries are normally reviewed annually based on performance appraisals and other relevant factors. The Group provides external and internal training programs to its employees.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any significant contingent liabilities (31 December 2015: Nil).

FOREIGN EXCHANGE RISK

Majority of the subsidiaries of the Company operate in the PRC with most of the transactions denominated and settled in RMB. As at 31 December 2016, 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

On 16 December 2016, Kangda Investment (Hong Kong) Company Limited, an indirectly wholly-owned subsidiary of the Company, entered into an agreement with China Meiling Environment Holdings Pte. Ltd. (中國美陵環境控股有限公司（新加坡）) ("China Meiling"), for the acquisition of a 100% equity interest in Meiling Environmental Science and Technology (Zibo) Co., Ltd. (美陵環境科技（淄博）有限公司）), which is a wholly-owned subsidiary of China Meiling, at a consideration of RMB377,250,000. Since the acquisition was not yet completed on the date of this annual report, it is not practicable to disclose further details about the acquisition.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Board is responsible and has general powers for the management and operation of the Group's business. The Board currently consists of nine Directors, including five executive Directors, one non-executive Director and three independent non-executive Directors.

Executive Directors

Mr. Zhao Juanxian (alias, Zhao Junxian) (趙雋賢), aged 64, is the founder of the Group. He is an executive Director, and the chairman of the Board (the "Chairman") of the Company, responsible for strategic development and planning, overall operational management, market development and major decision making. He was appointed as a Director on 22 August 2011. He has acted as a director and the chief executive officer of Chongqing Kangda since the beginning of the establishment of Chongqing Kangda and ceased to be the chief executive officer of Chongqing Kangda from September 2012. He has also served as a director of Jilin Kangda Environmental Protection Co., Ltd.* (吉林康達環保有限公司) ("Jilin Kangda") and Hebi Kangda Water Co., Ltd.* (鶴壁康達水務有限公司) ("Hebi Kangda") since September 2011 and February 2012, respectively. He graduated from the political administration at elementary level* (黨政幹部基礎科專業) from Sichuan University* (四川大學) located in Chengdu City, Sichuan Province, and Sichuan Higher Vocational and Examination Committee* (四川省高等中專教育自學考試指導委員會) in June 1988, and attended a one-month education programme of Sichuan foreign-related business from Shenzhen University* (深圳大學) located in Shenzhen City, Guangdong Province, in July 1988. Mr. Zhao Juanxian has about 25 years of experience in the environmental protection and wastewater treatment industry and was awarded for several times for his valuable contribution to the development of environmental protection and his expertise in environmental protection technology by relevant environmental protection industry associations from 2004 to 2009. Mr. Zhao Juanxian was granted the title of Outstanding Environmental Technology Entrepreneurs by the Chinese Society for Environmental Sciences* (中國環境科學學會) in September 2004. He received the China Environmental Protection Industry Development Award granted by the China Association of Environmental Protection Industry* (中國環境保護產業協會) in January 2005. He was also granted the title of Outstanding Individual of Environmental Protection by the People's Government of Chongqing Municipal* (重慶市人民政府) in July 2006 and Outstanding Entrepreneur of China Environmental Protection Industry by China Association of Environmental Protection Industry* (中國環境保護產業協會) in October 2009.

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

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

* *For identification purposes only*

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang Weizhong (張為眾), aged 65, is the Company's chief executive officer (the "Chief Executive Officer") and an executive Director. He was appointed as the Director on 15 March 2013. He was appointed as the president of Chongqing Kangda on 25 September 2012. He completed a nine-month training programme of financial accounting in Sichuan Institute of Finance and Economics* (四川財經學院, currently known as Southwestern University of Finance and Economics* (西南財經大學)) located in Chengdu City, Sichuan Province, from October 1980 to July 1981 and graduated from Sichuan Radio and TV University* (四川廣播電視大學) located in Chengdu City, Sichuan Province, with a college degree* (大學專科) in industrial accounting in July 1986. Mr. Zhang Weizhong has over 30 years of experience of management and has obtained the qualification of senior accountant in the PRC granted by the People's Government of Chongqing Municipal* (重慶市人民政府) in December 1988. He was granted the title of Outstanding Accountant by the People's Government of Chongqing Municipal* (重慶市人民政府) in November 1982, Outstanding Accountant by Shizhong District Government of Chongqing* (重慶市市中區人民政府) in December 1982 and Senior Accounting Worker by Sichuan Province Government* (四川省人民政府) in December 1986.

Mr. Zhang Weizhong has served as an executive director of the Painting Branch of China Chemical Accounting Association* (中國化工會計學會塗料分會) since November 1991 and an executive director of Hainan Association of Chief Accountant* (海南省總會計師協會) since December 2004. Mr. Zhang held directorships in China Huandao (Group) Limited Company* (中國寰島集團公司), Sea Master Finance Limited (海領財務公司) and Cheer Harvest Industries Limited (資合實業有限公司). In addition, he was also the general manager and chairman of Huandao South Development Limited Company* (寰島南方實業發展有限公司), as well as the general manager and legal representative of Haikou Haidian Island Real Estate Development Limited Company* (海口海甸島房地產開發總公司). Even though Mr. Zhang held directorships and other management positions in other companies, Mr. Zhang has confirmed that his respective employments in other companies will not materially affect the discharge of his duties to the Company. In January 2015, he served as the deputy secretary-general of China State-owned Industry Innovation Alliance.

Ms. Liu Zhiwei (劉志偉), aged 52, is an executive Director and was appointed as a Director on 15 May 2012. She joined the Group in 1996 and has served various positions, including chief accountant, chief officer of asset management department, deputy chief financial officer, audit director, executive director and vice president, and is currently responsible for the investor relationship and risk control matters of the Group. Ms. Liu has approximately 20 years of experience in the field of accounting. She obtained the qualification of senior accountant in the PRC granted by the People's Government of Chongqing Municipal* (重慶市人民政府) in November 2000.

Mr. Gu Weiping (顧衛平), aged 62, is an executive Director and was appointed as a Director on 15 May 2012. He joined the Group in 1996 and has served various positions, including general manager assistant, vice president and deputy chairman. He is currently responsible for the management of administrative and human resource affairs of the Group. He has also served as a director of Hebi Kangda and Kangda (Dongying) Environmental Protection Water Co., Ltd.* (康達(東營)環保水務有限公司) since February 2012 and November 2012, respectively. He completed the training course on administration and management for two years and graduated in political management and administration at elementary level* (黨政管理幹部基礎專修科專業) from Sichuan Radio and TV University* (四川廣播電視大學) located in Chongqing Municipal, in July 1986. He obtained the qualification of environmental engineer in the PRC granted by the People's Government of Chongqing Municipal* (重慶市人民政府) in September 1993. Mr. Gu Weiping has over 35 years of experience in the environmental protection industry. The research project he participated, namely the Research on the National Environmental Monitoring Standardisation of Analytical Methods* (全國環境監測分析方法標準化研究), won the Second Prize of Environmental Protection Science and Technology Progress Award* (環境保護科學技術進步二等獎) granted by the National Environmental Protection Bureau* (國家環境保護局) in October 1987. He was awarded by the People's Government of Chongqing Municipal* (重慶市人民政府) for his outstanding contribution to the development of engineering technology and projects on wastewater treatment in 1998 and 2011.

* *For identification purposes only*

Mr. Wang Litong (王立彤), aged 48, is an executive Director and was appointed as a Director on 30 October 2013. He was appointed as the vice president of Chongqing Kangda in charge of marketing department, technology management department and water projects management department on 28 July 2011. He is currently in charge of the marketing and business development of the Group. He has also served as a director of Jilin Kangda since September 2011. He graduated from Tianjin Institute of Technology* (天津理工學院, currently known as Tianjin University of Technology* (天津理工大學)) located in Tianjin, with major in mechanical design in July 1991. He has more than 20 years of experience in relation to municipal environmental protection and was involved in a number of projects in municipal environmental design engineering, sewage treatment, solid waste disposal and research work on environmental protection facilities. Mr. Wang obtained the qualification of senior engineer in the PRC granted by the Tianjin Human Resource and Social Security Bureau* (天津市人力資源和社會保障局) in December 2010, and he has served as a member of the Committee for Drainage of Civil Engineering* (土木工程學會排水委員會) since November 2012. He has participated in the compilation of 10 sets of national standards in technology of construction and has been recognised by the Ministry of Housing and Urban – Rural Development of the PRC (中華人民共和國住房和城鄉建設部) for his outstanding consultancy, project design and development of technology.

Non-executive Director

Mr. Zhuang Ping (莊平), aged 52, is a non-executive Director nominated by Baring Private Equity Asia V Holding (5) Limited. He joined the Group on 30 October 2013 when he was appointed as a non-executive Director. He obtained a bachelor degree in water supply and engineering from Xi'an Institute of Metallurgy and Construction* (西安冶金建築學院, currently known as Xi'an University of Architecture and Technology* (西安建築科技大學)) located in Xi'an City, Shaanxi Province, in July 1983, a master degree in environmental engineering from Tianjin University* (天津大學) located in Tianjin, in June 1988, a doctorate degree in civil and environmental engineering from Clarkson University in New York, the US, in May 1994. Mr. Zhuang became a grade II wastewater treatment plant operator granted by the Water Pollution Control System Operations Certification Commission of the State of North Carolina, the US, in February 1996, a professional engineer in North Carolina, the US, in February 1997, a professional engineer in Florida, the US, in October 1997. His engineering license has been recognised by the National Council of Examination for Engineering and Surveying in the US in July 1997. He has been working for more than 20 years in the fields of urban development, water and wastewater treatment, solid waste management, groundwater and soil remediation, energy efficiency as well as many other infrastructure projects related work, including research, investment planning (fund raising), feasibility studies, project development, financing, implementation, operation and maintenance. He has participated in Asia Development Bank (ADB) financed environmental protection projects in China, mainly responsible for project implementation and commissioning.

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

Mr. Zhuang has resigned on 31 March 2017 before the expiration of his term of appointment.

* *For identification purposes only*

Independent non-executive Directors

Mr. Tsui Yiu Wa Alec (徐耀華), aged 67, is an independent non-executive Director. He joined the Group on 30 October 2013 when he was appointed as an independent non-executive Director. Mr. Tsui graduated from the University of Tennessee located in Knoxville, Tennessee, the US, with a bachelor degree in science in industrial engineering in June 1975 and a master degree in engineering in June 1976 and completed the programme for senior managers in government at the John F. Kennedy School of Government at Harvard University located in Cambridge, Massachusetts, the US, in August 1993. Mr. Tsui has over 20 years of experience in finance and administration, corporate and strategic planning, information technology and human resources management.

Mr. Tsui Yiu Wa Alec served various positions, including the chief executive of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from February 1997 to July 2000, the chief operating officer of Hong Kong Exchanges and Clearing Limited (香港交易及結算所有限公司) from March 2000 to July 2000 and the chairman of Hong Kong Securities Institute (香港證券專業學會) from December 2001 to December 2004. Mr. Tsui has been the chairman of the board of directors of WAG Worldsec Corporate Finance Limited (香港華高和昇財務顧問有限公司), a private company which provides professional consulting services and financial solutions to corporations, since February 2006, mainly responsible for overall strategic direction and operational management, and had resigned as the chairman and director of WAG Worldsec Corporate Finance Limited on June 2016.

Mr. Tsui is also the independent non-executive director of Industrial and Commercial Bank of China (Asia) Limited and Zhuhai Da Heng Qin Company Limited. He is also the independent non-executive director of a number of listed companies in Hong Kong, namely, COSCO Shipping International (Hong Kong) Limited (previously known as COSCO International Holdings Limited), Melco Crown Entertainment Limited, Pacific Online Limited, Summit Ascent Holdings Limited, and DTXS Silk Road Investment Holdings Company Limited (previously known as UDL Holdings Limited) as well as independent non-executive director of certain companies listed overseas including ATA INC (listed on National Association of Securities Deal Automated Quotation (NASDAQ) in the US) and Melco Crown (Philippines) Resorts Corporation (listed in the Republic of Philippines).

Mr. Peng Yongzhen (彭永臻), aged 67, is an independent non-executive Director. He joined the Group on 26 February 2015 when he was appointed as an independent non-executive Director. Mr. Peng graduated from Harbin Institute of Technology* (哈爾濱工業大學) (formerly known as Harbin University of Architecture and Engineering (哈爾濱建築大學), the same below) in June 1995 with a doctor degree in environmental engineering and was a senior visiting scholar in Gunma University (日本群馬大學) from October 1996 to April 1997. Mr. Peng previously held various positions in water supply and sewerage engineering major in the urban construction department of Harbin Institute of Technology* (哈爾濱工業大學), including the teaching assistant position from September 1976 to October 1978, the teaching assistant, lecturer and associate professor positions from December 1981 to September 1993, and the professor position from September 1993 to February 2000. Since 2000, he has been a professor, a tutor of doctoral candidates and the chief of the environmental engineering department and water pollution control research laboratory in Beijing University of Technology* (北京工業大學), and the chief of Beijing Engineering Technology Research Center of Sewage Nitrogen and Phosphorus Removal* (北京市污水脱氮除磷處理工程技術研究中心) of Beijing University of Technology, concurrently.

* *For identification purposes only*

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

Mr. Chang Qing (常清), aged 59, is an independent non-executive Director. He joined the Group on 8 January 2016 when he was appointed as an independent non-executive Director. Mr. Chang graduated from the Chinese Academy of Social Sciences* (中國社會科學院) with a doctorate degree in agricultural economics and management in 2001, graduated from Jilin University (吉林大學) with both a master's degree in national economics in 1985 and a bachelor's degree in economics in 1982. Mr. Chang had successively served as a research assistant, a deputy research fellow and a research fellow of Development Research Center of the State Council (國務院發展研究中心) from 1985 to 2005 and the vice chairman of China Futures Association (中國期貨業協會) from 1999 to 2006. Mr. Chang has worked in the College of Economics and Management of China Agriculture University (中國農業大學經濟管理學院) since 2005. He has also served as the chairman of the board of Jinpeng International Futures Co., Ltd (金鵬期貨經紀有限公司) since 1993.

Mr. Chang has served as an independent non-executive director of China Chengtong Development Group Limited (中國誠通發展集團有限公司), which is listed on the Stock Exchange (stock code: 00217), and as an independent director of Tibet Summit Industry Co., Ltd.* (西藏珠峰工業股份有限公司), which is listed on the Shanghai Stock Exchange (stock code: 600338), and Tebian Electric Apparodus Stock Co., Ltd. (特變電工股份有限公司), which is listed on the Shanghai Stock Exchange (stock code: 600089), since January 2013, June 2011 and September 2015, respectively. He served as an independent director of Shenwu Environmental Technology Co., Ltd (神霧環保技術股份有限公司), which is listed on the Shenzhen Stock Exchange (stock code: 300156), from September 2008 to August 2015, and as an independent director of Rongfeng Holding Group Co., Ltd. (榮豐控股集團股份有限公司), which is listed on the Shanghai Stock Exchange (stock code: 000668), from August 2007 to September 2013.

Mr. Yuan Shaoli (袁紹理), aged 62, is an independent non-executive Director. He joined the Group on 30 October 2013 when he was appointed as an independent non-executive Director. Mr. Yuan completed a programme provided by the department of finance, international trade and economics at Graduate School of Chinese Academy of Social Sciences* (中國社會科學院研究生院) located in Beijing with his major in international trade, in September 1998. Mr. Yuan had served as the deputy division chief, the division chief and a director of one of the central state ministries of the PRC for several years. He is familiar with Chinese laws and regulations and has extensive experience in business management, asset management, human resource management and public relations.

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

Mr. Yuan has resigned on 8 January 2016 before the expiration of his term of appointment.

* *For identification purposes only*

SENIOR MANAGEMENT

Mr. Li Zhaoliang (李兆梁), aged 39, is the deputy chief financial officer of the Group primarily responsible for overseeing and coordinating the operation of the Group's finance department and managing the accounting and taxation functions of the Group. He joined the Group in July 2016 and was appointed as the deputy chief financial officer of the Company on 10 August 2016. Mr. Li graduated from Renmin University of China (中國人民大學) with a master's degree in accounting in 2007 and graduated from China University of Petroleum — Beijing (中國石油大學(北京)) with a bachelor's degree in foreign-related enterprise financial management in 2000. Mr. Li has been accredited as a senior accountant by the CNPC Evaluation Committee of Senior Technical Positions* (中國石油天然氣集團公司高級技術職務評審委員會) in December 2013. Mr. Li has concurrently served as the director of training management center in CNPC South East Asia pipeline Company Limited (中國石油集團東南亞管道有限公司), and the manager of training department in South-East Asia Gas Pipeline Co., Ltd.* (東南亞天然氣管道有限公司) and South-East Asia Crude Oil Pipeline Co., Ltd.* (東南亞原油管道有限公司) since July 2014.

Mr. Li served as the financial executive in the Venezuela operation area of China National Logging Co., Ltd. (中油測井有限公司) from September 2001 to August 2003, the deputy manager of the financial department in China National Logging Co., Ltd. (中油測井有限公司) from November 2005 to May 2009 and the deputy director of the financial assets department in CNPC Great Wall Drilling Company (中國石油集團長城鑽探有限公司) from May 2009 to April 2010. Mr. Li also served as the deputy director of the financial department in CNPC South East Asia Pipeline Company Limited (中國石油集團東南亞管道有限公司) from April 2010 to May 2014, and the deputy director of the human resources department in CNPC South East Asia Pipeline Company Limited (中國石油集團東南亞管道有限公司) from May 2014 to July 2014.

Mr. Li Gang (李剛), aged 40, is the chief financial officer of the Group primarily responsible for overseeing and coordinating the operation of the Group's finance department as well as managing the financial, accounting and taxation functions and financing activities of the Group. He joined the Group in July 2012 and was appointed as the chief financial officer of the Company on 26 September 2012. He worked in Ernst & Young from January 2008 to June 2012 and a number of CPA firms in China before he joined the Group. He obtained a bachelor's degree in accounting from the Beijing Institute of Light Industry* (北京輕工業學院) (now Beijing Technology and Business University* (北京工商大學)) located in Beijing in July 1998. He has been a fellow member of both the Chinese Institute of Certified Public Accountants and the Chinese Institute of Certified Public Valuers since August 2002 and January 2005, respectively.

Mr. Li has resigned on 10 August 2016.

Mr. Liang Zuping (梁祖平), aged 61, was appointed as the head of the auditing department of Chongqing Kangda on 28 July 2011, mainly responsible for the internal auditing and risk control matters of the Group. He joined the Group in July 1996 and has served various positions, including finance manager, deputy head of finance department, head and vice manager of finance department of construction management centre, manager of audit and supervision department, chief of tender committee, head of company supervision department and head of the auditing department. He has also served as a director of Chongqing Zhongya Technology Co., Ltd.* (重慶中雅科技有限公司), Tianjin Kangda Environmental Protection Water Co., Ltd* (天津康達環保水務有限公司), Harbin Kangda Environmental Protection Investment Co., Ltd.* (哈爾濱康達環保投資有限公司), Kangda Environmental Protection (Suzhou) Water Co., Ltd* (康達環保(宿州)水務有限公司), Suzhou Kangda Environmental Protection Sewage Treatment Co., Ltd.* (宿州康達環保污水處理有限公司) and Huadian Kangda Environmental Protection Water Co., Ltd* (樺甸康達環保水務有限公司) since October 2007, December 2010, February 2011, February 2011, March 2013 and August 2013, respectively. Mr. Liang completed the education programmes on senior industrial accounting in Chongqing Staff Accountant Training College* (重慶職工會計專科學校) located in Chongqing Municipal, in autumn 1981, spring 1983 and autumn 1983. He has also completed a two-year long-distance programme on economics and management in Beijing Economic Correspondence University* (北京經濟函授大學, currently known as Beijing Institute of Economic Management Correspondence College* (北京經濟管理函授學院)) located in Beijing, in January 1989. He passed the examination of college level accounting* (會計專業職務大專水平) in Sichuan Province in September 1988. He has over 20 years experience over accounting, financing and auditing affairs and was qualified as an accountant in the PRC granted by the Ministry of Finance of the PRC in November 1993.

* *For identification purposes only*

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the code provisions included in the corporate governance code (the "Corporate Governance Code") as set out in Appendix 14 of The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Board is of the view that during the year ended 31 December 2016, the Company has complied with the Corporate Governance Code and there has been no deviation from the code provisions as set forth under the Corporate Governance Code.

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

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

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

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

The Company has made specific enquiries to all of the Directors and all of the Directors have confirmed that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2016.

THE BOARD OF DIRECTORS

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

The composition of the Board is set out below:

Executive Directors

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

Non-executive Director

Zhuang Ping (resigned on 31 March 2017)

Independent non-executive Directors

Tsui Yiu Wa Alec
Peng Yongzhen
Chang Qing (appointed on 8 January 2016)
Yuan Shaoli (resigned on 8 January 2016)

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

During the year ended 31 December 2016, the Board at all time complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service contract with us for an initial fixed term of three years commencing from 4 July 2014, the listing date of the Company (the "Listing Date") and will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other.

The non-executive Director has signed an appointment letter issued by us regarding appointing him as the non-executive Director for a fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by the non-executive Director or by immediate notice in writing served by the Company. On 31 March 2017, Mr. Zhuang Ping resigned as a non-executive Director.

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

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

Mr. Chang Qing has entered into a service contract with the Company for an initial fixed term of one year commencing from 8 January 2016 and will continue thereafter and until terminated by not less than one month's notice in writing served by either party to the other.

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

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

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

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

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

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

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

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

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

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

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

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

DIRECTORS' TRAINING

According to the records provided by the Directors, a summary of training received by the Directors for the year ended 31 December 2016 is as follows:

Name of Directors	Corporate Governance/ Updates on Laws, Rules & Regulations Read Materials	Corporate Governance/ Updates on Laws, Rules & Regulations Attend Seminars/ Briefing
Executive Directors		
Zhao Juanxian (alias, Zhao Junxian) (Chairman)	√	√
Zhang Weizhong (Chief executive officer)	√	√
Liu Zhiwei	√	√
Gu Weiping	√	√
Wang Litong	√	√
Non-executive Director		
Zhuang Ping (resigned on 31 March 2017)	√	√
Independent Non-executive Directors		
Tsui Yiu Wa Alec	√	√
Peng Yongzhen	√	√
Chang Qing (appointed on 8 January 2016)	√	√
Yuan Shaoli (resigned on 8 January 2016)	√	√

BOARD MEETINGS

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

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

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

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

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

DIRECTORS' ATTENDANCE RECORDS

During the year ended 31 December 2016, six Board meetings, an annual general meeting and an extraordinary general meeting were held, including reviewing and approving the annual results for the year ended 31 December 2015 and the interim results for the six months ended 30 June 2016, approving the appointment of the deputy chief financial officer, and considering and approving the overall strategies and policies of the Company.

The attendance records of each Director at the Board meetings, annual general meeting and extraordinary general meeting during the year ended 31 December 2016 are set out below:

Name of Directors	Attendance/ Number of Board Meetings	Attendance/ Number of Annual General Meeting	Attendance/ Number of Extraordinary General Meetings
Executive Directors			
Zhao Juanxian (alias, Zhao Junxian) (Chairman)	5/6*	1/1	0/1*
Zhang Weizhong (Chief Executive Officer)	6/6	1/1	1/1
Liu Zhiwei	6/6	1/1	1/1
Gu Weiping	5/6*	1/1	0/1*
Wang Litong	6/6	1/1	1/1
Non-executive Director			
Zhuang Ping (resigned on 31 March 2017)	6/6	1/1	1/1
Independent Non-executive Directors			
Tsui Yiu Wa Alec	6/6	1/1	1/1
Peng Yongzhen	6/6	1/1	1/1
Chang Qing (appointed on 8 January 2016)	6/6	1/1	1/1
Yuan Shaoli (resigned on 8 January 2016)	N/A	N/A	N/A

* Mr. Zhao Juanxian (alias, Zhao Juanxian) and Mr. Gu Weiping abstained from one of the Board meetings and the extraordinary general meeting.

DELEGATION BY THE BOARD

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

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

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

BOARD COMMITTEES

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

NOMINATION COMMITTEE

The Company has established a nomination committee on 30 October 2013 (the "Nomination Committee") with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code. The primary function of the Nomination Committee is to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive. The Nomination Committee currently consists of five members, comprising Mr. Zhao Juanxian (alias, Zhao Junxian), Mr. Zhang Weizhong, Mr. Tsui Yiu Wa Alec, Mr. Peng Yongzhen and Mr. Chang Qing (appointed on 8 January 2016), and Mr. Zhao Juanxian (alias, Zhao Junxian) is the chairman of the Nomination Committee. Mr. Yuan Shaoli resigned as a member of the Nomination Committee on 8 January 2016.

The Nomination Committee held one meeting during the year ended 31 December 2016 and the attendance records are set out below:

Name of Directors	**Attendance/ Number of Meetings**
Mr. Zhao Juanxian (alias, Zhao Junxian) (Chairman)	1/1
Mr. Zhang Weizhong	1/1
Mr. Tsui Yiu Wa Alec	1/1
Mr. Peng Yongzhen	1/1
Mr. Chang Qing (appointed on 8 January 2016)	1/1
Mr. Yuan Shaoli (resigned on 8 January 2016)	N/A

The Nomination Committee had reviewed the size, structure and composition of the Board to complement the Group's corporate strategy, nominated candidates to fill the casual vacancy arising from the resigning Director during the year ended 31 December 2016.

REMUNERATION COMMITTEE

The Company has established a remuneration committee on 30 October 2013 (the "Remuneration Committee") with written terms of reference in compliance with paragraph B.1 of the Corporate Governance Code and Rule 3.25 to the Listing Rules. The primary duties of the Remuneration Committee are to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objects and make recommendations to the Board on the remuneration package of individual executive Directors and senior management. The Remuneration Committee currently consists of three members, namely Mr. Gu Weiping, Mr. Peng Yongzhen and Mr. Chang Qing (appointed on 8 January 2016), and Mr. Chang Qing is the chairman of the Remuneration Committee. Mr. Yuan Shaoli resigned as the Chairman of the Remuneration Committee on 8 January 2016.

The Remuneration Committee has reviewed the Directors' fees (including executive Directors, non-executive Director and independent non-executive Directors) in consideration of the increasing level of duties and responsibilities and market conditions; and approval of the remuneration incentive structure of the Group as a whole taking consideration of factors such as salaries paid by comparable companies, time commitment and their responsibilities.

The Remuneration Committee held one meeting during the year ended 31 December 2016 and the attendance records are set out below:

Name of Directors	Attendance/ Number of Meetings
Mr. Chang Qing (Chairman) (appointed on 8 January 2016)	1/1
Mr. Gu Weiping	1/1
Mr. Peng Yongzhen	1/1
Mr. Yuan Shaoli (Chairman) (resigned on 8 January 2016)	N/A

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2016 are set out in Note 8 to the Consolidated Financial Statements.

The biographies of the senior management are disclosed in the section headed "***Directors and Senior Management***" in this annual report. Remuneration paid to the senior management (excluding the Directors) by bands for the year ended 31 December 2016 is set out below:

Remuneration bands	Number of individuals
Nil to HK$1,000,000	2
HK$1,000,000 to HK$1,500,000	1

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") pursuant to a resolution of the Directors passed on 30 October 2013 in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code. The primary duties of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems, oversee the audit process and perform other duties and responsibilities as assigned by the Board. At present, the Audit Committee currently consists of three independent non-executive Directors, being Mr. Tsui Yiu Wa Alec, Mr. Peng Yongzhen and Mr. Chang Qing (appointed on 8 January 2016), and Mr. Tsui Yiu Wa Alec is the chairman of the Audit Committee. Mr. Yuan Shaoli resigned as a member of the Audit Committee on 8 January 2016.

The Audit Committee has reviewed the annual results and annual report of the Group for the year ended 31 December 2016. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members of the Company.

During the year ended 31 December 2016, the Audit Committee discussed with the management of the Company about the internal controls and financial reporting matters, and reviewed the accounting principles and practices adopted by the Group and the effectiveness of the Group's internal control system. The Audit Committee also met with the external auditor twice to review the annual report of the Company for the year ended 31 December 2015 and the interim report of the Company for the six months ended 30 June 2016 and discuss about the annual audit planning of the Company for the year ended 31 December 2016.

The Audit Committee held three meetings during the year ended 31 December 2016 and the attendance records are set out below:

Name of Directors	**Attendance/ Number of Meetings**
Mr. Tsui Yiu Wa Alec (Chairman)	3/3
Mr. Peng Yongzhen	3/3
Mr. Chang Qing (appointed on 8 January 2016)	3/3
Mr. Yuan Shaoli (resigned on 8 January 2016)	N/A

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2016. The Directors consider that the Group has adequate resources to continue in business for the foreseeable future and are not aware of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

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

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

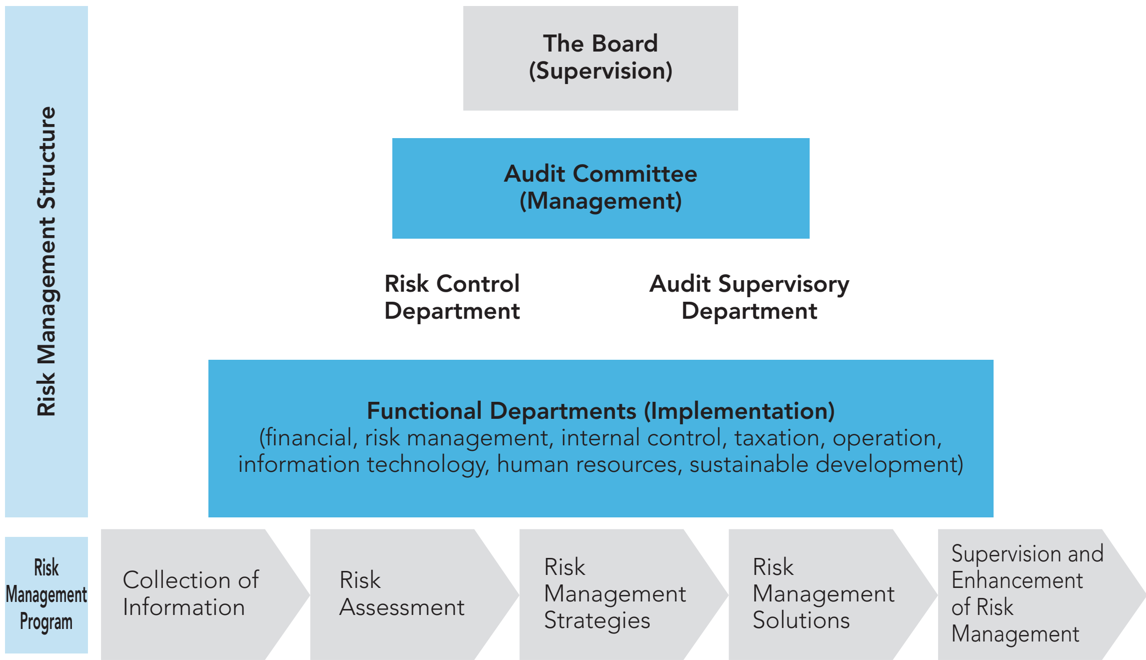
RISK MANAGEMENT AND INTERNAL CONTROL

The Board is solely responsible for the risk management and internal control system to protect the interests of the Company and the Shareholders as a whole. To achieve its aim, the Board monitors and approve the strategies and policies of the Group's risk management and internal control systems. The purpose of the relevant strategies and policies is to evaluate and determine the nature and extent of risks to make it suitable for the Group's strategic objectives and risk endurance. The main target is provide reasonable assurance against material misstatement or loss, rather than eliminate the risk of failure to achieve business objectives. To this end, management continues to allocate resources for an internal control and risk management system compatible with the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure in the operating system of the Group and in achieving business objectives by the Group.

The Board, through the Audit Committee, has continuously monitored and annually reviewed the effectiveness of risk management and internal control system of the Group and its subsidiaries, and is of the view that the existing risk management and internal control system is sufficient and effective. The review covered all material aspects with regard to control, including financial control, operational control and compliance control. The internal audit reports submitted to the Audit Committee by the Group also cover aspects of risk management and control. The Board is not aware of any significant areas of concern which may affect the Shareholders, and believes that the Group has fully complied with the code provisions on internal controls, including compliance with legal and regulatory requirements, as set forth in the Corporate Governance Code. The Board, through the appraisal performed by the Audit Committee, reviewed the adequacy of resources, staff qualifications and experience, training programs received by the staff and budget of the Group's accounting, internal auditing and financial reporting function at the Board meeting. In light of the Group's nature of business and the recommendations on the Board's role in risk management, the Group has developed risk management system and policies, and established a risk control department, which is responsible for the Group's risk management, to communicate and assess the Group's risk profile and material risks, and track the progress of mitigation plans and initiatives of material risks and report on detailed examinations of specific risks as required.

RISK MANAGEMENT ORGANISATION SYSTEM

The Group has established a comprehensive organization structure to manage the risks encountered by the Group. The risk management structure comprised two key factors: risk management structure and risk management program.



1. RISK MANAGEMENT STRUCTURE

REGULATORY ORGANISATION	**The Board is responsible for the effectiveness of the overall risk management** ▶ determine the overall objective, risk appetites and risk tolerance for corporate risk management, and approve risk management strategies, major risk mitigation solutions and risk management measures; ▶ understand and manage each major risks faced by the enterprise and its existing management situations, and make effective risks control decisions; approve the decision-making standards or mechanisms regarding major decisions, major risks, major events and major business processes; ▶ approve risk management report related to major decisions; and ▶ approve the annual comprehensive risk management report.
RISK MANAGEMENT ORGANISATION	**The Audit Committee, the highest risk management organisation in the Company, is accountable to the Board** ▶ review the establishment and planning of the comprehensive risk management system; ▶ review the proposal on the structure of the risk management organisations and their responsibilities; ▶ review the annual comprehensive risk management report and submit to the Board; ▶ review risk management strategies, major risk management solutions and risk management measures; and ▶ review the annual risk management work plan.
LEADING RISK MANAGEMENT ORGANISATION	**Risk control department, the leading risk management organisation** ▶ responsible for the establishment and amendment of the Company's risk management policies and mechanisms; ▶ formulate annual risk management work plan and submit to the Board and the Audit Committee for their review; ▶ regularly collect first-hand information regarding risk management, carry out risk assessment and discuss major risks faced by the Company; and ▶ assess the soundness, reasonability and the effectiveness in implementation of the risk management system, and review the annual comprehensive risk management report, risk management proposals and day-to-day risk management solutions.
RISK IMPLEMENTATION ORGANISATION	**Each functional department of the Company shall be under the coordination and supervision by the risk control department** ▶ implement the basic procedures in risk management; ▶ research and propose decision-making standards or mechanisms regarding major decisions, major risks, major events and major business processes of the functional department; ▶ research and propose risk assessment report of the functional department; ▶ properly carry out risk management work of the functional department; and ▶ establish comprehensive risk management procedures for the functional department.
RISK SUPPORTING ORGANISATION	**Audit supervisory department, responsible for making the internal audit arrangement based on the result of risk assessment** ▶ assist the Group in carrying out risk management work, and formulate internal auditing plan in accordance with the result of risk assessment; ▶ test the effectiveness of risk management through implementing accounting methods like walk through test and analytical review on its audit; and ▶ submit auditing results to the risk control department immediately after the internal audit.

2. RISK MANAGEMENT PROGRAM

The Group has established a comprehensive risk management program which is led by the risk control department and implemented with the assistance of the internal audit department. The risk management program is as follows:

(1) to collect first-hand information for risk management;

(2) to analyse and assess risks;

(3) to propose risk management strategies and formulate risk management solutions; and

(4) to supervise the implementation of risk management works performed by each business units and verify the overall appraisal;

Key risk management program of the Group

Risk Management Program	Collection of Information	Risk Assessment	Risk Management Strategies	Risk Management Solutions	Supervision and Enhancement of Risk Management
Designed Functions	Each department collects first-hand information for risk management	Organise meetings to analyse and assess risks	Arrange discussion between the management and each risk unit and propose risk strategies	Arrange discussion between the management and each risk unit and propose risk management solutions	Supervise the implementation of risk management works and verify the overall appraisal

SUPERVISION AND ENHANCEMENT OF RISK MANAGEMENT

The Group has set up basic procedures that cover the whole process of risk management, connecting the channels of communication of risk management information along the reporting lines and among various departments and business units to ensure timely, accurate and complete sharing of information and this has laid the foundation for the supervision and enhancement of risk management.

The senior management of the Group, focusing on material risks, material matters and material decisions, important management matters and the business flow, supervises the work relating to the first-hand information collection for risk management, risk assessment, risk management strategies, critical control activities and the implementation of risk management solutions. The risk control department carries out an annual review and examination on the implementation of the works on risk management by different departments and business units and its effectiveness for the year, assesses risk management strategies and evaluates inter-departmental risk management solutions and business units' risk management solutions, proposes suggestions for adjustments and recommendations for improvements and issues evaluation and recommendation reports which will be sent to the relevant senior management in a timely manner.

MATERIAL RISKS THE GROUP MAY FACE

In 2016, during the course of business planning, we identified the material risks that the Group may face which include macroeconomic risks, risks of industry policies, risks of the PPP business model and risks of customers' credibility.

The potential risks of macro-economic risks arise from the effects of macro-economy's volatility; and the pressure of inflation. The Group's corresponding measures on the risk include reviewing the management strategies and mechanism for macro-economic risks; reviewing the relevant mechanism on the collection of information about the changes in the external macro-economic environment; clearly defining the macro-economic risk analysis session; analysing, reviewing, adjusting and improving the strategies for managing macro-economic risks in future.

The potential risks of industry policies arise from the change of relevant national laws and regulations in relation to the industries the Company mainly engaged in or proposed to expand into; introduction or changes in national environmental protection policies; and changes in policies relating to business partnership models. The Group's corresponding measures on the risks include reviewing management strategies and mechanism for risks of adjustment and changes in relevant national laws and regulations; collecting timely information on introduction or changes in national environmental protection policies; and enhancing the responsive mechanism for new business partnership models.

The potential risks of the PPP business model arise from the uncertainties within project revenues from the PPP business model; the key process of the PPP business model is yet to be clarified; and the industry is still exploring the PPP business model. The Group's corresponding measures on the risks include reviewing management strategies and mechanism for the PPP business model; collecting information from sample cases of PPP business model and accumulating experience in implementing the model; identify clearly the risk analyzing sessions of each aspect of the PPP business model; and continuing to analyse new issues encountered in the PPP business model to improve the corresponding risk handling measures.

The potential risks of customers' credits arise from the deteriorating debt crisis of local governments. The Group's corresponding measures on the risks include reviewing management strategies and mechanism for evaluating customers' credits; enhancing our capability to collect and analyse customers' information to provide information on the evaluation of customers' status; reviewing our capability to communicate and negotiate with customers; and strengthening management in collecting water bills.

MANAGEMENT OF INSIDE INFORMATION

The Group has formulated a set of program of continuing obligations on information management and disclosure to formally regulate the monitoring of inside information that arises during the course of its current business development and has established the practice of delivering such information to the Shareholders, the media and analysts. When handling the relevant matters, the Group will comply with "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission and the related provisions issued by regulatory organisations and the Group has clearly stated that the unauthorised use of confidential or inside information is prohibited. The Group has set up a system of answering enquiries from external parties about the Group's affairs, and will appoint and authorise the senior executives of the Group to act as the Company's spokesperson in response to enquiries on a particular area.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about its reporting responsibilities for the Consolidated Financial Statements is set out in the "***Independent Auditor's Report***" on pages 56 to 60.

During the year ended 31 December 2016, the remuneration paid/payable to the Company's independent auditor, Ernst & Young, is set out below:

	RMB
Annual audit services	2,800,000
Total fees	2,800,000

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

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

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

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Company has not made any significant changes to its constitutional documents during the year ended 31 December 2016.

SHAREHOLDERS' RIGHTS

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

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

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

CONVENING OF EXTRAORDINARY GENERAL MEETINGS AND PUTTING FORWARD PROPOSALS

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

ENQUIRIES TO THE BOARD

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

COMPANY SECRETARY

Mr. Cheng Wing Hong is the company secretary of the Company. In compliance with Rule 3.29 of the Listing Rules, Mr. Cheng has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2016.

REPORT OF DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

COMPANY INFORMATION AND LISTING

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in constructions and operations in wastewater treatment business in the PRC.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 61 of this annual report.

FINAL DIVIDENDS

The Board has recommended a final dividend of RMB1.6 cents per share for the year ended 31 December 2016 (year ended 31 December 2015: RMB1.6 cents per share) subjected to the approval of the Shareholders at the forthcoming annual general meeting to be held on Thursday, 25 May 2017 (the "Annual General Meeting").

BUSINESS REVIEW

A review of the Group's business for the year ended 31 December 2016 are presented in "Chairman's Statement", "Business Review" and "Financial Analysis". The "Financial Analysis" also includes an analysis of the Group's performance during the financial year in terms of key financial performance indicators. Likely future developments in the Group's business are disclosed in "Chairman's Statement" and "Development Strategies and Future Development" section of "Management Discussion and Analysis".

Except for the events disclosed in "Events After the Reporting Period", there is no important event affecting the Group since the end of the financial year.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group has implemented internal recycling program on a continuous basis for consumable goods such as toner cartridges and paper to minimise the operation impact on the environment and natural resources. Recycled papers have also been used as key printing materials for internal use.

The Group has also implemented energy saving practices in offices and the Group's wastewater plants to enhance the efficiency of electricity consumption.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

PRINCIPAL RISKS AND UNCERTAINTIES

The political, economic and social conditions in China are experiencing changes and reforms, which may adversely affect our business, growth strategies, operating results and financial condition.

Demand for the Group's services and business, financial condition, results of operations and prospects may be adversely affected by the following factors:

- political instability or changes in social conditions in China;
- changes in laws, regulations and administrative directives;
- measures which may be introduced to control inflation or deflation; and
- changes in the rate or method of taxation;

These factors are affected by a number of variables which are beyond control.

RELATIONSHIPS WITH KEY STAKEHOLDERS

EMPLOYEE

Employees are regarded as the most important and valuable assets of the Group. The objective of the Group's human resource management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement.

CUSTOMERS AND SUPPLIERS

The Group's customers are generally municipal, district or county level governments or their designees in China. We typically enter into agreements with the Group's customers to provide wastewater treatment and other services on a project-by-project basis.

The Group's business is built on a customer-oriented culture, and are focused on establishing relationships with district or county level governments or their designees in China. The Group also understands that it is important to maintain good relationship with its suppliers and customers to fulfil its immediate and long-term goals. To maintain its market competitiveness within the industry, the Group aims at delivering constantly high standards of quality in the service to its customers.

SHAREHOLDERS

One of the corporate goals of the Group is to enhance corporate value to Shareholders. The Group is poised to foster business developments for achieving the sustainability of earnings growth and rewarding Shareholders.

REPORT OF DIRECTORS

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities, which are extracted from the prospectus of the global offering of the Company (the "Prospectus") and the annual audited reports, are set out on page 158 of this annual report. This summary does not form part of the audited consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, the Group's five largest suppliers accounted for 33% of the Group's total purchases and purchase from the Group's largest supplier included therein amounted to 9% of the total purchases for the year.

For the year ended 31 December 2016, the Group's sales to its five largest customers accounted for 36% of the Group's total sales and sales to the largest customer included therein amounted to 11% of the total sales for the year.

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2016 are set out in note 12 to the consolidated financial statements.

SHARE CAPITAL

During the year ended 31 December 2016, there was no change to the Company's share capital and it remained the same as at 31 December 2015.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2016 are set out in note 42 and in the consolidated statement of changes in equity on page 64 of this annual report respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the provisions of Companies Law, amounted to approximately RMB1,861.3 million.

BANK LOANS AND CORPORATE BOND

Particulars of interest-bearing bank and other borrowings and corporate bonds of the Group as at 31 December 2016 are set out in note 27 and note 28 to the consolidated financial statements.

REPORT OF DIRECTORS

DIRECTORS

The Directors during the year ended 31 December 2016 and up to the date of this annual report were:

Executive Directors:

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

Non-executive Director:

Zhuang Ping (resigned on 31 March 2017)

Independent non-executive Directors:

Tsui Yiu Wa Alec
Peng Yongzhen
Chang Qing (appointed on 8 January 2016)
Yuan Shaoli (resigned on 8 January 2016)

In accordance with the Articles of Association of the Company, Mr. Zhang Weizhong, Mr. Gu Weiping and Mr. Tsui Yiu Wa Alec will retire, and being eligible, have offered themselves for re-election as Directors at the Annual General Meeting of the Company.

Details of the Directors to be re-elected at the Annual General Meeting of the Company are set out in the circular to the Shareholders.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 19 to 24 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' SERVICE CONTRACTS AND LETTER OF APPOINTMENTS

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

The non-executive Director has signed an appointment letter for a fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by the non-executive Director or by immediate notice in writing served by the Company. On 31 March 2017, Mr. Zhuang Ping resigned as the non-executive Director.

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

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

Mr. Chang Qing has entered into a service contract with the Company for an initial fixed term of one year commencing from 8 January 2016 and will continue thereafter and until terminated by not less than one month's notice in writing served by either party to the other.

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

DIRECTORS' INTERESTS IN TRANSACTIONS OF SIGNIFICANCE, ARRANGEMENTS OR CONTRACTS

No Director or any entity connected with a Director had a material interest, either directly or indirectly, in any transactions of significance, arrangements or contracts to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2016.

PERMITTED INDEMNITY PROVISION

According to the Articles of Association, every Director or other officer of the Company shall be entitled to be indemnified out of the assets and profits of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2016.

SHARE OPTION SCHEME

The Company has adopted the 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:

Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to give the Eligible Persons (as defined in the following paragraph) an opportunity to have a personal stake in the Company and help motivate them to optimise their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executives (as defined below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Who may join in the Share Option Scheme

The Board may, at its absolute discretion, grant options ("Option(s)") to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

(a) any executive Director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group ("Executive"), any full-time or part-time employee, or person for the time being seconded to work full-time or part-time for any member of the Group ("Employee");

(b) a Director or proposed Director (including an independent non-executive Director) of any member of the Group;

(c) a direct or indirect shareholder of any member of the Group;

(d) a supplier of goods or services to any member of the Group;

(e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;

(f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and

(g) an associate of any of the persons referred to in paragraphs (a) to (f) above (the person referred above are the "Eligible Persons").

Maximum number of Shares

The maximum number of Shares immediately following the completion of the Global Offering (as defined in the Prospectus) in respect of which Options may be granted under the Share Option Scheme was 200,000,000, representing 10% of the issued share capital of the Company.

Maximum entitlement of each participant

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period exceeds 1% of the Company's issued share capital from time to time.

Where any further grant of Options to such Eligible Person would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by the Shareholders in general meeting with such Eligible Person and his or her associates abstaining from voting.

Offer and grant of Options

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof).

Minimum holding period, vesting and performance target

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of any of Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before Option can be exercised.

AMOUNT PAYABLE ON ACCEPTANCE OF THE OPTION AND THE PAYMENT PERIOD

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

Subscription price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

(a) The nominal value of a Share;

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

(c) The average closing price of a Share as stated in the Stock Exchange's daily quotations for the 5 business days (as defined in the Listing Rules) immediately preceding the offer date.

The remaining life of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years.

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

During the year ended 31 December 2016, 34,010,000 Options were lapsed and no Option was granted, exercised or cancelled under the Share Option Scheme. The share options granted shall vest and become exercisable within one year from the relevant date of vesting in three tranches in the proportion of 30%, 30% and 40% at the end of the 12th, 24th and 36th month after the date of grant, unless otherwise determined by the Company at its discretion in exceptional circumstances. As at 31 December 2016, 21,510,000 Shares were vested and become exercisable.

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 2016 (HK$)	Granted during the Period	Exercised during the Period	Cancelled/ lapsed during the Period	Outstanding as at 31 December 2016	Exercise period (Note 1)
Director									
Zhang Weizhong	19/12/2014	3.340	3.386	1,950,000	–	–	(1,950,000)	–	A
(also the chief				1,950,000	–	–	–	1,950,000	B
executive officer)				2,600,000	–	–	–	2,600,000	C
Sub-total				6,500,000	–	–	(1,950,000)	4,550,000	
Liu Zhiwei	19/12/2014	3.340	3.386	1,650,000	–	–	(1,650,000)	–	A
				1,650,000	–	–	–	1,650,000	B
				2,200,000	–	–	–	2,200,000	C
Sub-total				5,500,000	–	–	(1,650,000)	3,850,000	
Gu Weiping	19/12/2014	3.340	3.386	1,500,000	–	–	(1,500,000)	–	A
				1,500,000	–	–	–	1,500,000	B
				2,000,000	–	–	–	2,000,000	C
Sub-total				5,000,000	–	–	(1,500,000)	3,500,000	
Wang Litong	19/12/2014	3.340	3.386	1,500,000	–	–	(1,500,000)	–	A
				1,500,000	–	–	–	1,500,000	B
				2,000,000	–	–	–	2,000,000	C
Sub-total				5,000,000	–	–	(1,500,000)	3,500,000	
Other employees (in aggregate)	19/12/2014	3.340	3.386	18,660,000	–	–	(18,660,000)	–	A
				18,660,000	–	–	(3,750,000)	14,910,000	B
				24,880,000	–	–	(5,000,000)	19,880,000	C
Sub-total				62,200,000	–	–	(27,410,000)	34,790,000	
Total				84,200,000	–	–	(34,010,000)	50,190,000	

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 year, calculated using binomial model as at the date of grant of the share options.

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

EMOLUMENT POLICY

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

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five highest paid individuals are set out in note 8 and note 9 to the consolidated financial statements.

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

As at 31 December 2016, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of issued share capital of the Company
Mr. Zhao Juanxian[(1)] (alias, Zhao Junxian)	Person acting in concert (long position)	1,138,319,004	55.06%
Mr. Zhang Weizhong[(2)]	Beneficial owner (long position)	4,550,000	0.22%
Ms. Liu Zhiwei[(2)]	Beneficial owner (long position)	3,850,000	0.19%
Mr. Gu Weiping[(2)]	Beneficial owner (long position)	3,500,000	0.17%
Mr. Wang Litong[(2)]	Beneficial owner (long position)	3,500,000	0.17%

Note:

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

(2) The Director is interested in the underlying Shares of the Company by virtue of the Options granted to him/her under the Share Option Scheme. For further details, please refer to the section headed "Share Option Scheme" in this report.

Save as disclosed above, as at 31 December 2016, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the year ended 31 December 2016 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

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

As at 31 December 2016, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of issued share capital of the Company
Mr. Zhao Sizhen[1]	Interest in controlled corporation (long position)	1,135,419,004	54.92%
	Beneficial owner (long position)	2,900,000	0.14%
Kangda Holdings Company Limited[2]	Beneficial owner (long position)	1,135,419,004	54.92%
Baring Private Equity Asia V Holding (5) Limited[3]	Beneficial owner (long position)	344,129,996	16.64%
The Baring Asia Private Equity Fund V, L.P.[3]	Interest in controlled corporation (long position)	344,129,996	16.64%
Baring Private Equity Asia GP V, L.P.[3]	Interest in controlled corporation (long position)	344,129,996	16.64%
Baring Private Equity Asia GP V Limited[3]	Interest in controlled corporation (long position)	344,129,996	16.64%
Jean Eric Salata[3]	Interest in controlled corporation (long position)	344,129,996	16.64%

Notes:

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

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

(3) Baring Private Equity Asia V Holding (5) Limited is held as to approximately 99.35% by The Baring Asia Private Equity Fund V, L.P. Baring Private Equity Asia GP V, L.P., is the general partner of The Baring Asia Private Equity Fund V, L.P. Jean Eric Salata is the sole shareholder of Baring Private Equity Asia GP V Limited, the general partner of Baring Private Equity Asia GP V, L.P. Each of The Baring Asia Private Equity Fund V, L.P., Baring Private Equity Asia GP V, L.P., Baring Private Equity Asia GP V Limited and Jean Eric Salata is deemed to be interested in the relevant Shares held by Baring private Equity Asia V Holding (5) Limited. Jean Eric Salata disclaims beneficial ownership of such Shares, other than to the extent of his economic interest in such entities.

Save as disclosed above, and as at 31 December 2016, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

NON-COMPETITION UNDERTAKING

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

The Controlling Shareholders have confirmed in writing to the Company of their compliance with the deed of non-competition for disclosure in this report during the year ended 31 December 2016.

The independent non-executive Directors have reviewed the deed of non-competition whether the Controlling Shareholders have abided by the non-competition undertaking. The independent non-executive Directors confirmed that they had determined that the Controlling Shareholders have not been in breach of the non-competition undertaking during the year ended 31 December 2016.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, as at 31 December 2016, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

CONNECTED TRANSACTION

Pursuant to Rule 14A.09 of the Listing Rules, as Qitaihe Wanxinglong Water Co., Ltd.* (七台河萬興隆水務有限責任公司), Qishan County Dayuan Sewage Treatment Co., Ltd.* (岐山縣大源污水處理有限責任公司), Jinlin Kangda, Hebi Kangda, seven subsidiaries from Shandong Guohuan (i.e. Jining Guohuan Sewage Treatment Co., Ltd.* (濟寧市國環污水處理有限公司), Yanggu County Guohuan Sewage Treatment Co., Ltd.* (陽穀縣國環污水處理有限公司), Liaocheng Municipal Guohuan Sewage Treatment Co., Ltd.* (聊城市國環污水處理有限公司), Shen County Guohuan Sewage Treatment Co., Ltd.* (莘縣國環污水處理有限公司), Dong'e County Guohuan Sewage Treatment Co., Ltd.* (東阿縣國環污水處理有限公司), Liaocheng Jiaming Guohuan Sewage Treatment Co., Ltd.* (聊城嘉明國環污水處理有限公司), Linqing City Guohuan Sewage Treatment Co., Ltd.* (臨清市國環污水處理有限公司)), Zhengzhou Xinzhongzhou Water Co., Ltd.* (鄭州新中洲水務有限公司), Xinzheng Xinkang Water Co., Ltd.* (新鄭新康水務有限公司) and Pingdingshan City Bay Water Treatment Co., Ltd.* (平頂山市海灣水務有限公司) are insignificant subsidiaries of the Group, the related party transactions between the Group and their respective non-controlling shareholders set out in note 37(a) of the consolidated financial statements do not constitute connected transactions or continuing connected transactions under the Listing Rules.

On 1 September 2016, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, entered into a share purchase agreement with Chongqing Kangda Investment, an directly controlled company of Mr. Zhao Juanxian, for the acquisition of 15% equity interests held by Chongqing Kangda Investment in Zhongyuan Asset for an aggregate consideration of RMB450.0 million. On 5 December 2016, Chongqing Zhongya Technology Co., Ltd* (重慶中雅科技有限公司), an indirectly wholly-owned subsidiary of the Company, entered into two equipment purchase agreements with Chongqing Taiko & Kangda Environmental Protection Technology Co., Ltd.* (重慶大晃康達環保技術有限公司), an indirectly controlled company of Mr. Zhao Juanxian, for the purchase of several sets of the wastewater treatment equipment for an aggregate consideration of RMB24,885,900. These transactions constitute connected transactions under the Listing Rules and the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

As set out in note 37(a) of the consolidated financial statements, certain bank borrowings of the Group were guaranteed by Mr. Zhao Juanxian, which constitute continuing connected transactions under Chapter 14A of the Listing Rules. However, pursuant to Rule 14A.90 of the Listing Rules, as the guarantees provided by Mr. Zhao Juanxian were conducted on normal commercial terms and not secured by the assets of the Group, the guarantees provided by Mr. Zhao Juanxian set out in note 37(a) of the consolidated financial statements are fully exempted from reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Save as disclosed above, the other transactions set in note 37 of the consolidated financial statements either do not constitute connected transactions or continuing connected transactions of the Company or are exempted from reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

* *For identification purposes only*

NON-COMPLIANCE

As disclosed in the paragraph headed "Non-compliance" in the business section of the Prospectus, Huadian Kangda Environmental Protection Water Co., Ltd.* (樺甸康達環保水務有限公司, "Huadian Kangda") operated without a valid sewage discharge permit during the three years ended 31 December 2013 and up to the date of 13 June 2014. On 13 May 2015, Huadian Kangda obtained a temporary sewage discharge permit from Huadian Environmental Protection Agency* (樺甸市環境保護局) for a period from 13 May 2015 to 12 May 2016. On 7 June 2016, Huadian Kangda obtained a temporary sewage discharge permit from the Environmental Protection Bureau of Jilin Province for a period from 7 June 2016 to 6 June 2017.

Save as disclosed above, as at 31 December 2016 and up to the date of this annual report, the historical non-compliance instances disclosed in the paragraph headed "Non-compliance" in the business section of the Prospectus were still under the progress of rectification. For further details of such historical non-compliance instances, please refer to the paragraph headed "Non-compliance" in the business section of the Prospectus. The Company will provide further information in its subsequence interim and annual report if there is any further update on the status of such non-compliance instances.

CHARITABLE DONATIONS

During the year ended 31 December 2016, the Group made an environmental equipment donation of RMB17.2 million to Shangqiu City Government.

POST BALANCE SHEET EVENTS

The material post balance sheet events are disclosed in note 41 to the consolidated financial statements in this report.

AUDIT COMMITTEE

The Audit Committee had reviewed together with the management and independent auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2016.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code contained in the Listing Rules. Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with such code of conduct during year ended 31 December 2016.

CORPORATE GOVERNANCE

The Company is committed to strengthening the corporate governance practices of the Group. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 25 to 40 of this annual report.

* *For identification purposes only*

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

Ernst & Young has acted as auditor of the Company for the year ended 31 December 2016.

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

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

Hong Kong, 30 March 2017

INDEPENDENT AUDITORS' REPORT

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

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

OPINION

We have audited the consolidated financial statements of Kangda International Environmental Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 61 to 157, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board ("IAASB"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

KEY AUDIT MATTERS *(continued)*

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Provision for impairment of trade receivables	
Trade receivables were significant to the consolidated financial statements and the majority of the receivables were generated under service concession arrangements and build-transfer contracts. Provision for trade receivables is made based on the assessment of the recoverability of receivables due from customers. When determining whether a trade receivable is collectable, significant management judgement is involved. Management considers various factors including aging analysis, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of customers. Relevant disclosures are included in note 19 to the consolidated financial statements.	Our procedures to assess the recoverability of trade receivables included, among others, inquiry about management's judgements and special consideration during the assessment, examining subsequent receipts by checking to bank receipts, testing the correctness of the aging analysis by customers, comparing to historical repayment patterns, and evaluating the financial strength of customers with significant overdue balances. In addition, we evaluated the adequacy of the disclosures regarding trade receivables.
Accounting for business combinations	
During 2016, the Group did significant business combinations. Management engaged external appraisers to evaluate the fair values of identifiable assets acquired and liabilities assumed. The accounting for business combinations relied on a significant management's estimation and judgements in respect of fair value assessments, as well as the allocation of the purchase price. Relevant disclosures are included in note 32 to the consolidated financial statements.	We obtained and read the share purchase agreements and checked to the payments of considerations. We performed detailed testing over the acquisition accounting, including fair value adjustments such as identification and valuation of intangible assets and financial receivables. We evaluated the competency, independence and objectivity of the external appraisers engaged by the Group to perform the valuation and involved our internal valuation specialists to review the methodology and assumptions adopted in the valuation of acquired intangible assets and financial receivables , including determining whether the assumptions used for the purpose of valuing acquired intangible assets and financial receivables were consistent with what a market participant would use. We also evaluated the adequacy of relevant disclosures of business combinations.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Accounting for service concession arrangements	
The Group engages in certain service concession arrangements in which the Group carries out construction work of the waste water treatment plants (the "WTPs"), reclaimed water treatment plants (the "RWTPs"), water distribution plants (the "WDPs"), sludge treatment plants (the "STPs") and other municipal infrastructures for certain governmental authorities or their designees (the "Grantors") and receives in return a right to operate the WTPs, RWTPs, WDPs, STPs and other municipal infrastructures concerned in accordance with the pre-established conditions set by the Grantors. The measurement of revenue and cost for service concession arrangements involves significant management judgment and estimates including determination of applicable accounting model, estimation of the future guaranteed receipts, prevailing market rate of construction gross margins, discount rates as used in the valuation process. Relevant disclosures are included in note 4 and note 17 to the consolidated financial statements.	We reviewed the contract terms of the service concession arrangements and assessed the appropriateness of accounting model adopted and the future guaranteed receipts, construction gross margins and discount rates estimated by management. We also evaluated the appropriateness of basis and assumptions in the valuation and performed a comparison of the inputs used in the valuation to external market data. In addition, we involved the internal valuation specialists to assist us in evaluating the gross margin for construction service and the discount rates. We also assessed the adequacy of the relevant disclosures.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ng Siu Ki Ricky.

Ernst & Young
Certified Public Accountants
Hong Kong
30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	4	**1,926,502**	1,836,478
Cost of sales		**(1,103,173)**	(962,607)
Gross profit		**823,329**	873,871
Other income and gains	5	**127,101**	63,382
Selling and distribution expenses		**(11,044)**	(9,975)
Administrative expenses		**(235,794)**	(210,021)
Other expenses		**(23,493)**	(38,559)
Finance costs	7	**(269,468)**	(240,450)
Share of profits and losses of:			
Associates		**28,076**	4,899
A joint venture		**(1,315)**	–
PROFIT BEFORE TAX	6	**437,392**	443,147
Income tax expense	10	**(91,400)**	(108,500)
PROFIT FOR THE YEAR		**345,992**	334,647
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Share of other comprehensive income of an associate		**14,395**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**360,387**	334,647
Profit attributable to:			
Owners of the parent	11	**334,577**	324,883
Non-controlling interests		**11,415**	9,764
		345,992	334,647
Total comprehensive income attributable to:			
Owners of the parent		**348,972**	324,883
Non-controlling interests		**11,415**	9,764
		360,387	334,647
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (expressed in RMB per share)	11	**16.18 cents**	15.71 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**100,082**	85,363
Investment properties		**1,592**	1,850
Investments in associates	13	**620,463**	58,582
Investment in a joint venture	14	**23,185**	–
Intangible assets	15	**279,634**	3,154
Goodwill	16	**60,219**	43,049
Financial receivables	17	**5,786,190**	4,850,068
Deferred tax assets	18	**53,715**	36,313
Prepayments, deposits and other receivables	20	**292,964**	154,960
Total non-current assets		**7,218,044**	5,233,339
CURRENT ASSETS			
Inventories		**36,593**	13,041
Construction contracts	21	**188,370**	181,360
Financial receivables	17	**1,268,065**	1,375,168
Trade and bills receivables	19	**765,208**	621,968
Prepayments, deposits and other receivables	20	**758,042**	179,544
Structured deposit	22	**–**	450,400
Pledged deposits	23	**92,444**	119,220
Available-for-sale financial investments	24	**158,400**	–
Cash and cash equivalents	23	**675,285**	1,291,770
Total current assets		**3,942,407**	4,232,471
CURRENT LIABILITIES			
Trade and bills payables	25	**910,396**	764,354
Other payables and accruals	26	**263,125**	201,756
Deferred income		**16,133**	–
Interest-bearing bank and other borrowings	27	**2,360,092**	1,578,687
Corporate bonds	28	**300,000**	–
Tax payable		**19,839**	18,770
Total current liabilities		**3,869,585**	2,563,567
NET CURRENT ASSETS		**72,822**	1,668,904
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,290,866**	6,902,243
NON-CURRENT LIABILITIES			
Trade payables	25	**6,304**	3,640
Interest-bearing bank and other borrowings	27	**2,160,917**	2,311,267
Corporate bonds	28	**946,825**	885,556
Deferred income		**17,833**	–
Deferred tax liabilities	18	**465,820**	371,097
Total non-current liabilities		**3,597,699**	3,571,560
Net assets		**3,693,167**	3,330,683

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Issued capital	29	**16,444**	16,444
Reserves	31	**3,530,541**	3,183,584
		3,546,985	3,200,028
Non-controlling interests		**146,182**	130,655
Total equity		**3,693,167**	3,330,683

Zhang Weizhong
Director

Liu Zhiwei
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to owners of the parent									
	Issued capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Special reserve RMB'000	Share option reserve RMB'000	Available-for-sale financial investment revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2016	**16,444**	**1,791,487**	**368,355**	**–**	**33,423**	**–**	**990,319**	**3,200,028**	**130,655**	**3,330,683**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**334,577**	**334,577**	**11,415**	**345,992**
Other comprehensive income for the year:										
Share of other comprehensive income of an associate (a)	**–**	**–**	**–**	**–**	**–**	**14,395**	**–**	**14,395**	**–**	**14,395**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**14,395**	**334,577**	**348,972**	**11,415**	**360,387**
Acquisition of subsidiaries (b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**45,792**	**45,792**
Final 2015 dividends declared	**–**	**(33,080)**	**–**	**–**	**–**	**–**	**–**	**(33,080)**	**–**	**(33,080)**
Capital contribution from the non-controlling shareholder	**–**	**–**	**434**	**–**	**–**	**–**	**–**	**434**	**18,400**	**18,834**
Acquisition of non-controlling interests (c)	**–**	**–**	**7,250**	**–**	**–**	**–**	**–**	**7,250**	**(60,080)**	**(52,830)**
Acquisition of an associate (a)	**–**	**–**	**7,524**	**–**	**–**	**–**	**–**	**7,524**	**–**	**7,524**
Equity-settled share option expense (d)	**–**	**–**	**–**	**–**	**15,857**	**–**	**–**	**15,857**	**–**	**15,857**
Transfer to special reserve (e)	**–**	**–**	**–**	**14,704**	**–**	**–**	**(14,704)**	**–**	**–**	**–**
Utilisation of special reserve (e)	**–**	**–**	**–**	**(14,704)**	**–**	**–**	**14,704**	**–**	**–**	**–**
As at 31 December 2016	**16,444**	**1,758,407***	**383,563***	**–***	**49,280***	**14,395***	**1,324,896***	**3,546,985**	**146,182**	**3,693,167**
As at 1 January 2015	16,444	1,791,487	368,355	–	1,191	–	665,436	2,842,913	81,802	2,924,715
Profit for the year	–	–	–	–	–	–	324,883	324,883	9,764	334,647
Other comprehensive income for the year	–	–	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	–	324,883	324,883	9,764	334,647
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	35,589	35,589
Capital contribution from the non-controlling shareholder	–	–	–	–	–	–	–	–	3,500	3,500
Equity-settled share option expense (d)	–	–	–	–	32,232	–	–	32,232	–	32,232
Transfer to special reserve (e)	–	–	–	14,283	–	–	(14,283)	–	–	–
Utilisation of special reserve (e)	–	–	–	(14,283)	–	–	14,283	–	–	–
As at 31 December 2015	16,444	1,791,487*	368,355*	–*	33,423*	–*	990,319*	3,200,028	130,655	3,330,683

* These reserve accounts comprise the consolidated reserves of RMB3,530,541,000 (31 December 2015: RMB3,183,584,000) in the consolidated statement of financial position.

Notes:

(a) The Group acquired 15% of the shares of Zhongyuan Asset Management Co., Ltd. (中原資產管理有限公司) ("Zhongyuan Asset") as an associate in 2016. During the year ended 31 December 2016, the Group recognised other comprehensive income of RMB14,395,000.

(b) Non-controlling interests arose from the acquisition of a 90% interest in Dong'e County Guohuan Sewage Treatment Co., Ltd. (東阿縣國環污水處理有限公司) ("Dong'e Guohuan"), Liaocheng Jiaming Guohuan Sewage Treatment Co., Ltd. (聊城嘉明國環污水處理有限公司) ("Jiaming Guohuan"), and Linqing City Guohuan Sewage Treatment Co., Ltd. (臨清市國環污水處理有限公司) ("Linqing Guohuan") from Shandong Guohuan Industrial Investment Co., Ltd. (山東國環產業投資有限公司) ("Shandong Guohuan") on 21 January 2016, a 70% interest in Xinzheng Xinkang Water Co., Ltd. (新鄭新康水務有限公司) ("Xinzheng Xinkang") on 14 December 2016, and a 95% interest in Qishan County Dayuan Waste Water Treatment Co., Ltd. (岐山縣大源污水處理有限責任公司) ("Qishan") on 31 December 2016 (note 32).

(c) On 30 June 2016, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, further acquired a 9% interest in Jining Guohuan Sewage Treatment Co., Ltd. (濟寧市國環污水處理有限公司) ("Jining Guohuan"), Yanggu County Guohuan Sewage Treatment Co., Ltd. (陽穀縣國環污水處理有限公司) ("Yanggu Guohuan"), Liaocheng Municipal Guohuan Sewage Treatment Co., Ltd. (聊城市國環污水處理有限公司) ("Liaocheng Guohuan"), Shen County Guohuan Sewage Treatment Co., Ltd. (莘縣國環污水處理有限公司) ("Shen County Guohuan"), Dong'e Guohuan, Jiaming Guohuan, and Linqing Guohuan (collectively known as "Seven Guohuan subsidiaries") from Shandong Guohuan.

(d) On 19 December 2014, the Company granted a total of 84,500,000 share options to subscribe for a total of 84,500,000 ordinary shares in the share capital of the Company under the share option scheme adopted by the Company on 14 June 2014. The Group recognised a share option expense of RMB15,857,000 (2015: RMB32,232,000) during the year ended 31 December 2016 (note 30).

(e) From 14 February 2012, the Group provided for and utilised the safety production expense fund according to the Circular on Printing and Issuing the Management Measures on the Enterprises Production Safety Expense of Enterprises Appropriation and Utilisation (2012 No.16) issued by the Ministry of Finance and the State Administration of Work Safety.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**437,392**	443,147
Adjustments for:			
Finance costs	7	**269,468**	240,450
Foreign exchange differences		**4,508**	(3,360)
Share of profit and loss of associates and a joint venture		**(26,761)**	(4,899)
Equity-settled share option expense	6	**15,857**	32,232
Bank interest income	5	**(8,688)**	(10,407)
Interest income from loans to third parties	5	**(8,473)**	–
Investment income from available-for-sale financial investments and structured deposit	5	**(3,892)**	–
Depreciation of property, plant and equipment	6, 12	**7,437**	7,211
Depreciation of investment properties	6	**258**	258
Amortisation of intangible assets	6, 15	**514**	185
Gain on disposal of items of property, plant and equipment	5	**(37)**	(129)
Provision for impairment of other receivables	6, 20	**1,747**	–
Write-off of impairment of trade receivables	6, 19	**–**	33,547
		689,330	738,235
Increase in inventories		**(23,338)**	(7,689)
Increase in financial receivables		**(383,118)**	(791,514)
(Increase)/decrease in construction contracts		**(7,010)**	239,310
Increase in trade and bills receivables		**(99,829)**	(147,056)
Increase in prepayments, deposits and other receivables		**(306,278)**	(41,921)
Increase in trade and bills payables		**32,979**	24,468
Decrease in other payables and accruals		**(74,650)**	(28,096)
Cash used in operations		**(171,914)**	(14,263)
Interest received	5	**8,688**	10,407
Income taxes paid		**(36,357)**	(26,129)
Net cash flows used in operating activities		**(199,583)**	(29,985)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment	12	**(9,910)**	(2,592)
Additions to intangible assets		**(12,145)**	(2,018)
(Increase)/decrease in structured deposit	22	**450,400**	(450,400)
Investment income received from available-for-sale financial investments and structured deposit		**3,892**	–
Proceeds from disposal of items of property, plant and equipment		**748**	280
Acquisition of subsidiaries, net of cash acquired	32	**(264,351)**	(112,481)
Acquisition of non-controlling interests		**(46,192)**	–
Prepayment for acquisition		**(3,964)**	(154,960)
Additions of investments in associates and a joint venture		**(549,655)**	–
Dividends received from an associate		**–**	1,971
Decrease in pledged deposits		**26,776**	392,720
Additions of available-for-sale financial investments		**(158,400)**	–
Increase in loans due from third parties included in other receivables		**(518,430)**	–
Net cash flows used in investing activities		**(1,081,231)**	(327,480)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase of bank loans		**2,109,923**	2,758,039
Repayment of bank loans		**(1,521,566)**	(2,508,453)
Interest paid		**(266,156)**	(239,412)
Dividends paid to shareholders		**(33,080)**	–
Proceeds from issue of corporate bonds		**360,000**	885,556
Capital contribution from a non-controlling shareholder		**6,400**	3,500
Net cash flows from financing activities		**655,521**	899,230
NET (INCREASE)/DECREASE IN CASH AND CASH EQUIVALENTS		**(625,293)**	541,765
Cash and cash equivalents at beginning of year		**1,291,770**	747,283
Effect of foreign exchange rate changes, net		**8,808**	2,722
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**675,285**	1,291,770

1. CORPORATE AND GROUP INFORMATION

Kangda International Environmental Company Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 4 July 2014.

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

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

Information about subsidiaries

Particulars of the principal subsidiaries of the Company are as follows:

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Kangda Environmental Protection Investment Limited (康達環保投資有限公司)*	The BVI	US$1	100	–	Investment holding company
Kangda Investment (Hong Kong) Company Limited (康達投資(香港)有限公司)*	Hong Kong	HK$1	–	100	Investment holding company
Kangyu Investment Co., Ltd. (康渝投資有限公司)# * **	Mainland China	USD200,000,000	–	100	Investment activities in Mainland China
Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd. (重慶康達環保產業(集團)有限公司)# *	Mainland China	RMB1,730,000,000	–	100	Investment in WTPs and construction of municipal infrastructure in Mainland China
Kangda Environmental Protection Water Co., Ltd. (康達環保水務有限公司)# *	Mainland China	RMB80,000,000	–	100	Construction and provision of WTPs operation services in Mainland China
Kangda Environmental Protection (Shangqiu) Water Co., Ltd. (康達環保(商丘)水務有限公司)# *	Mainland China	RMB63,000,000	–	100	Construction and provision of WTPs operation services in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Kangda Environmental Protection (Suzhou) Water Co., Ltd. (康達環保(宿州)水務有限公司)# *	Mainland China	RMB23,000,000	–	100	Provision of WTPs operation services in Mainland China
Guangrao Kangda Environmental Protection Water Co., Ltd. (廣饒康達環保水務有限公司)# *	Mainland China	RMB8,320,000	–	100	Construction and provision of WTPs operation services in Mainland China
Harbin Kangda Environmental Protection Investment Co., Ltd. (哈爾濱康達環保投資有限公司)# *	Mainland China	RMB30,000,000	–	100	Construction and provision of WTPs operation services in Mainland China
Linying Kangda Environmental Protection Water Co., Ltd. (臨潁康達環保水務有限公司)# *	Mainland China	RMB6,000,000	–	100	Provision of WTPs operation services in Mainland China
Weifang Kangda Environmental Protection Water Co., Ltd. (濰坊康達環保水務有限公司)# *	Mainland China	RMB94,180,000	–	100	Construction and provision of WTPs operation services in Mainland China
Kangda Environmental Protection (Gaomi) Sewage Treatment Co., Ltd. (康達環保(高密)污水處理有限公司)# *	Mainland China	RMB17,000,000	–	100	Construction and provision of WTPs operation services in Mainland China
Kangda Environmental Protection (Gaomi) Fengcheng Sewage Treatment Co., Ltd. (康達環保(高密)鳳城生活污水處理有限公司)# *	Mainland China	RMB8,500,000	–	100	Provision of WTPs operation services in Mainland China
Rushan Kangda Water Co., Ltd. (乳山康達水務有限公司)# *	Mainland China	RMB24,000,000	–	100	Construction and provision of WTPs operation services in Mainland China
Shangqiu Kangda Sewage Treatment Co., Ltd. (商丘康達污水處理有限公司)# *	Mainland China	RMB20,250,000	–	100	Construction and provision of WTPs operation services in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Haiyang Xingcun Kangda Water Co., Ltd. (海陽行村康達水務有限公司)# *	Mainland China	RMB19,490,000	–	100	Construction and provision of WTPs operation services in Mainland China
Shanxian Kangda Environmental Protection Water Co., Ltd. (單縣康達環保水務有限公司)# *	Mainland China	RMB26,500,000	–	100	Construction and provision of WTPs operation services in Mainland China
Kangda (Dongying) Environmental Protection Water Co., Ltd. ("Kangda Dongying") (康達(東營)環保水務有限公司)# *	Mainland China	US$13,115,000	–	100	Construction and provision of WTPs operation services in Mainland China
Beijing Chang Sheng Si Yuan Environmental Protection Technology Co., Ltd. (北京長盛思源環保科技有限公司)# *	Mainland China	RMB150,000,000	–	100	Investment, management of environmental projects and public infrastructure projects in Mainland China
Yucheng Dongjiao Chengjian Sewage Treatment Co., Ltd. (禹城東郊城建污水處理有限公司)# *	Mainland China	RMB10,000,000	–	100	Construction and provision of WTPs operation services in Mainland China
Liangshan Kangda Water Co., Ltd. (梁山康達水務有限公司)# *	Mainland China	RMB1,000,000	–	100	Construction and provision of WTPs operation services in Mainland China
Puyang Kangda Environmental Protection Water Co., Ltd. (濮陽康達環保水務有限公司)# *	Mainland China	RMB50,000,000	–	100	Construction and provision of WTPs operation services in Mainland China
Jining Guohuan Sewage Treatment Co., Ltd. (濟寧市國環污水處理有限公司)# *	Mainland China	RMB64,000,000	–	99	Construction and provision of WTPs operation services in Mainland China
Yanggu County Guohuan Sewage Treatment Co., Ltd. (陽穀縣國環污水處理有限公司)# *	Mainland China	RMB85,000,000	–	99	Construction and provision of WTPs operation services in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Liaocheng Municipal Guohuan Sewage Treatment Co., Ltd. (聊城市國環污水處理有限公司)# *	Mainland China	RMB64,000,000	–	99	Provision of WTPs operation services in Mainland China
Shen County Guohuan Sewage Treatment Co., Ltd. (莘縣國環污水處理有限公司)# *	Mainland China	RMB85,000,000	–	99	Construction and provision of WTPs operation services in Mainland China
Kangda Environmental Protection (Gaomi) Water Co., Ltd. (康達環保(高密)水務有限公司)# *	Mainland China	RMB33,000,000	–	100	Construction and provision of WTPs operation services in Mainland China
Zhengzhou Xinzhongzhou Water Co., Ltd. (鄭州新中洲水務有限公司)# *	Mainland China	RMB100,300,000	–	70	Provision of WTPs operation services in Mainland China
Chongqing Fulunde Technology Co. Ltd. (重慶弗侖德科技有限公司)# *	Mainland China	RMB2,000,000	–	100	Computer software development and sale in Mainland China
Xuzhou Kangda Environmental Protection Water Co., Ltd (徐州康達環保水務有限公司)# *	Mainland China	RMB20,000,000	–	100	Construction and provision of WTPs operation services in Mainland China
Tianjin Kangda Environmental Protection Water Co., Ltd (天津康達環保水務有限公司)# *	Mainland China	RMB16,500,000	–	100	Construction and provision of WTPs operation services in Mainland China
Suzhou Kangda Environmental Protection Sewage Treatment Co., Ltd (宿州康達環保污水處理有限公司)# *	Mainland China	RMB36,000,000	–	100	Provision of WTPs operation services in Mainland China
Gaomi Kangda Lvyi Sludge Treatment Co., Ltd (高密康達綠意污泥處理有限公司)# *	Mainland China	RMB3,000,000	–	100	Construction and provision of STPs operation services in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Yunan Kangda Liangke Environment Treatment Co., Ltd. (郁南康達亮科環境治理有限公司)# *	Mainland China	RMB62,000,000	–	80	Construction, operation and maintenance of WTPs and other environmental protection projects in Mainland China
Weihai Kangda Ecological Environment Treatment Co., Ltd. (威海康達生態環境綜合治理有限公司)# *	Mainland China	RMB100,000,000	–	88	Construction, operation and maintenance of WTPs, STPs, pipe network and other municipal infrastructure in Mainland China
Dongping Kangda Water Co., Ltd (東平康達水務有限公司)# *	Mainland China	US$5,200,000	–	100	Construction and provision of WTPs operation services in Mainland China
Pingdingshan City Bay Water Treatment Co., Ltd. ("Pingdingshan City Bay") (平頂山市海灣水務有限公司)# *	Mainland China	RMB50,000,000	–	80	Construction and provision of WTPs operation services in Mainland China
Shenzhen Kangyue Environmental Protection Technology Co., Ltd. (深圳康粵環保科技有限公司)# *	Mainland China	RMB50,000,000	–	100	Development and sale of WTPs in Mainland China
Shenzhen Kangyuan Environmental Nano Science and Technology Co., Ltd. (深圳市康源環境納米科技有限公司)# *	Mainland China	RMB10,000,000	–	65	Development and sale of WTPs in Mainland China
Chongqing Kangda Lvyi Energy Investment Co., Ltd. (重慶康達綠意能源投資有限公司)# *	Mainland China	RMB50,000,000	–	100	Investment in energy industry and provision of WTPs operation services in Mainland China
Shangqiu Kangda Water Treatment Co., Ltd. (商丘康達水處理有限公司)# *	Mainland China	RMB10,000,000	–	100	Construction and provision of WTPs operation services in Mainland China
Chongqing Kangda Zhishang Environmental Protection Industry Co., Ltd. (重慶康達至尚環保產業有限公司)# *	Mainland China	RMB70,000,000	–	100	Construction and provision of WTPs operation services in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Xinzheng Kangda Water Co., Ltd. (新鄭康達水務有限公司)# *	Mainland China	RMB1,000,000	–	100	Construction and provision of WTPs operation services in Mainland China
Weifang Shuangjie Water Purification Material Co., Ltd. ("Weifang Shuangjie") (濰坊雙傑淨水材料有限公司)# *	Mainland China	RMB8,000,000	–	100	Sale of water purifying material in Mainland China
Qishan County Dayuan Sewage Treatment Co., Ltd. (岐山縣大源污水處理有限責任公司)# *☆	Mainland China	RMB1,000,000	–	95	Construction and WTPs operation services in Mainland China
Dong'e County Guohuan Sewage Treatment Co., Ltd. (東阿縣國環污水處理有限公司)# *☆	Mainland China	RMB110,000,000	–	99	Construction and provision of WTPs operation services in Mainland China
Liaocheng Jiaming Guohuan Sewage Treatment Co., Ltd. (聊城嘉明國環污水處理有限公司)# *☆	Mainland China	RMB70,000,000	–	99	Construction and provision of WTPs operation services in Mainland China
Linqing City Guohuan Sewage Treatment Co., Ltd. (臨清市國環污水處理有限公司)# *☆	Mainland China	RMB75,000,000	–	99	Construction and provision of WTPs operation services in Mainland China
Qitaihe Wanxinglong Water Co., Ltd (七台河萬興隆水務有限責任公司)# *☆	Mainland China	RMB90,000,000	–	100	Construction and provision of WTPs operation services and reclaimed water treatment services in Mainland China
Xinzheng Xinkang Water Co., Ltd. (新鄭新康水務有限公司)# *☆	Mainland China	RMB60,000,000	–	70	Construction and provision of WTPs operation services in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

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

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

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

☆ On 21 January 2016, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, acquired a 90% interest in Dong'e Guohuan, Jiaming Guohuan, and Linqing Guohuan. On 13 December 2016, Chongqing Kangda acquired a 100% interest in Qitaihe Wanxinglong Co., Ltd. (七台河萬興隆水務有限責任公司) ("Qitaihe"). On 14 December 2016, Chongqing Kangda acquired a 70% interest in Xinzheng Xinkang. On 31 December 2016, Chongqing Kangda acquired a 95% interest in Qishan (note 32).

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

2.1 BASIS OF PREPARATION

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

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

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 Cycle	Amendments to a number of IFRSs

Except for the amendments to IFRS 10, IFRS 12 and IAS 28, amendments to IFRS 11, IFRS 14, amendments to IAS 16 and IAS 41, amendments to IAS 27, and certain amendments included in the *Annual Improvements 2012–2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in IAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

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

(c) *Annual Improvements to IFRSs 2012–2014 Cycle* issued in September 2014 sets out amendments to a number of IFRSs. Details of the amendments are as follows:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations:* Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in IFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
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*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

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

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. During 2016, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018. During the year ended 31 December 2016, the Group, performed a preliminary assessment on the impact of the adoption of IFRS 15. The Group engages in certain service concession arrangements in which the Group carries out construction work of the WTPs, RWTPs, WDPs, STPs or other municipal infrastructures for certain governmental authorities or their designees (the "Grantors") and receives in return a right to operate the WTPs, RWTPs, WDPs, STPs or other municipal infrastructures concerned in accordance with the pre-established conditions set by the Grantors. The Group has preliminary assessed that the transaction price in certain service concession arrangements will be allocated to the performance obligations upon the adoption of IFRS 15 and the revenue allocated to the construction work will be recognised over the period that the services are provided upon the adoption of IFRS 15.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

IFRS 16 replaces IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases — Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, 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. The Group expects to adopt the amendments from 1 January 2017.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 15% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

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

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

or

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

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

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

Buildings	4.50%

Intangible assets (other than goodwill)

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

Software

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill) *(continued)*

Operating concessions

For details of the accounting policy of operating concessions, please refer to "Service concession arrangements" below.

Operating contract rights

Operating contract rights represent the fair value of WTPs or RWTPs reclaimed water treatment plants operating rights acquired through business combination. These intangible assets are amortised on the straight-line basis over the remaining period of the operating contract rights.

Operating leases

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Service concession arrangements

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Service concession arrangements *(continued)*

Consideration given by the Grantors

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

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public use the service. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "intangible assets" above, which is amortized on a straight-line basis over the terms of operation ranging from 25 to 30 years.

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration.

Construction or upgrade services

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

Operating services

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Build-Transfer (the "BT") arrangements

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

Consideration given by the BT customers

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

Construction services

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

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale financial investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale financial investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost (continued)

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

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

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

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

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

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

(b) from the rendering of operation service of the WTPs, RWTPS, WDPs, STPs or other municipal infrastructures, when the service is provided;

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

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

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

Construction contracts

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Construction contracts *(continued)*

BT arrangements

Revenue from the construction services under the BT arrangements is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

BOT arrangements

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

EPC arrangements

When the outcome of a construction contract under the EPC agreements can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When the outcome of a construction contract under the EPC agreements can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to surveyors of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

Pension scheme

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

Short term employee benefits

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

Housing fund and other social insurances

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

Termination benefits

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

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

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

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

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

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

Accounting for service concession arrangements

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

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

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

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

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

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

Accounting for business combinations

Accounting for business combinations require the Group to allocate the cost of acquisition to specific assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. In connection with the business combinations in note 32, the Group has undertaken a process to identify all assets and liabilities acquired. Judgements made in identifying all acquired assets and determining the estimated fair value assigned to each class of assets acquired and liabilities assumed could materially impact the calculation of goodwill. Estimated fair values are based on information available near the acquisition date and on expectations and assumptions that have been deemed reasonable by management.

Withholding tax arising from the distribution of dividends

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

Estimation uncertainty

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

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

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

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Current income tax and deferred income tax

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

Deferred tax assets relating to certain temporary differences or unused tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or the unused losses can be utilised. The realisation of the deferred tax assets mainly depends on whether sufficient future profits will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a reversal takes place. Details of deferred tax assets are contained in note 18 to the financial statements.

Percentage of completion of construction contracts

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

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

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

Impairment of trade receivables and financial receivables

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

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Financial receivables

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

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. Details of share-based payments are contained in note 30 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 16.

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 Waster Water Treatment Plants (the "WTPs"), Reclaimed Water Treatment Plants (the "RWTPs"), Water Distribution Plants (the "WDPs"), Sludge Treatment Plants (the "STPs"), 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.

3. OPERATING SEGMENT INFORMATION *(continued)*

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, a structured deposit, 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.

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

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2016	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	1,666,608	144,498	115,396	1,926,502
	1,666,608	144,498	115,396	1,926,502
Segment results	587,809	35,503	20,425	643,737
Reconciliation:				
Unallocated income and gains				14,494
Corporate and other unallocated expenses				(81,880)
Finance costs				(138,959)
Profit before tax				437,392
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	135,441	–	–	135,441
Unallocated investments in associates				485,022
Investment in a joint venture	23,185	–	–	23,185
Share of profit and loss of associates	14,973	–	–	14,973
Share of profit and loss of unallocated investments in associates				13,103
Share of profit and loss of a joint venture	(1,315)	–	–	(1,315)
Depreciation and amortisation	4,681	–	–	4,681
Unallocated depreciation and amortisation				3,528
Total depreciation and amortisation				8,209
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.

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2015	Urban Water Treatment RMB'000	Water Environment Comprehensive Remediation RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	1,575,519	260,959	1,836,478
	1,575,519	260,959	1,836,478
Segment results	740,433	151,610	892,043
Reconciliation:			
Unallocated income and gains			16,562
Corporate and other unallocated expenses			(225,008)
Finance costs			(240,450)
Profit before tax			443,147
Segment assets	6,778,696	720,921	7,499,617
Reconciliation:			
Corporate and other unallocated assets			1,966,193
Total assets			9,465,810
Segment liabilities	3,207,781	188,323	3,396,104
Reconciliation:			
Corporate and other unallocated liabilities			2,739,023
Total liabilities			6,135,127
Other segment information			
Investment in an associate	58,582	–	58,582
Share of profit and loss of an associate	4,899	–	4,899
Depreciation and amortisation	3,343	–	3,343
Unallocated depreciation and amortisation			4,311
Total depreciation and amortisation			7,654
Capital expenditure	2,561	–	2,561
Unallocated amounts			2,049
Total capital expenditure*			4,610

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

3. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) *Revenue from external customers*

	2016 **RMB'000**	2015 RMB'000
Mainland China	**1,926,502**	1,836,478

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

(b) *Non-current assets*

	2016 **RMB'000**	2015 RMB'000
Mainland China	**7,164,329**	5,197,026

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

Information about major customers

During the year, the revenue derived from the Group's two largest customers is as follows:

Year ended 31 December 2016

	Urban Water Treatment RMB'000	**Total RMB'000**
Customer A	**208,331**	**208,331**
Customer B	**156,368**	**156,368**
	364,699	**364,699**

3. OPERATING SEGMENT INFORMATION *(continued)*

Information about major customers *(continued)*

Year ended 31 December 2015

	Urban Water Treatment RMB'000	Water Environment Comprehensive Remediation RMB'000	Total RMB'000
Customer C	20,389	266,402	286,791
Customer D	219,342	–	219,342
	239,731	266,402	506,133

4. REVENUE

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

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

Revenue represents: (1) an appropriate proportion of contract revenue of construction contracts under BOT arrangements, BT 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 and 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 year is as follows:

	2016 RMB'000	2015 RMB'000
Revenue from construction services	**980,267**	942,626
Revenue from operating services	**535,706**	549,126
Financial income	**410,529**	344,726
	1,926,502	1,836,478

5. OTHER INCOME AND GAINS

	2016 RMB'000	2015 RMB'000
Government grants (note (a))	**104,134**	43,054
Bank interest income	**8,688**	10,407
Interest income from loans to third parties	**8,473**	–
Investment income from available-for-sale financial investments and structured deposit	**3,892**	–
Rental income less depreciation of investment properties	**326**	368
Gain on disposal of items of property, plant and equipment, net	**37**	129
Arrangement fee from a BT customer	**–**	3,766
Foreign exchange differences	**–**	3,360
Others	**1,551**	2,298
	127,101	63,382

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	2016 RMB'000	2015 RMB'000
Cost for construction services		**762,179**	642,150
Cost for operation services		**340,994**	320,457
Total cost of services		**1,103,173**	962,607
Depreciation of property, plant and equipment		**7,437**	7,211
Amortisation of intangible assets		**514**	185
Write-off of trade receivables	19	**–**	33,547
Provision for impairment of other receivables		**1,747**	–
Minimum lease payments under operating leases for buildings		**5,613**	5,562
Auditor's remuneration		**2,800**	2,900
Employee benefit expense (including directors' remuneration):			
Wages, salaries and allowances, social securities and benefits		**151,329**	137,132
Pension scheme contributions (defined contribution scheme)		**16,275**	12,689
Equity-settled share option expenses		**15,857**	32,232
Total employee benefit expense		**183,461**	182,053
Operating lease income		**(584)**	(626)
Less: depreciation of investment properties		**258**	258
Rental income less depreciation of investment properties	5	**(326)**	(368)
Bank interest income	5	**(8,688)**	(10,407)
Government grants	5	**(104,134)**	(43,054)
Interest income from loans to third parties	5	**(8,473)**	–
Investment income from available-for-sale financial investments and structured deposit	5	**(3,892)**	–
Arrangement fee from a BT customer	5	**–**	(3,766)
Gain on disposal of items of property, plant and equipment, net	5	**(37)**	(129)
Foreign exchange differences, net		**4,508**	(3,360)

7. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest-bearing bank and other borrowings	**215,565**	238,485
Interest on corporate bonds	**53,903**	1,965
	269,468	240,450

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 RMB'000	2015 RMB'000
Fees	**2,319**	1,813
Other emoluments:		
Salaries, allowances and benefits in kind	**8,153**	7,256
Equity-settled share option expenses	**4,128**	8,392
Pension scheme contributions (defined contribution scheme)	**52**	59
Total	**14,652**	17,520

During the year ended 31 December 2014, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(i) Independent non-executive directors

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

	2016 RMB'000	2015 RMB'000
Mr. Tsui Yiu Wa Alec	**316**	293
Mr. Peng Yongzhen	**316**	251
Mr. Chang Qing*	**316**	–
	948	544

* Mr. Chang Qing was appointed as an independent non-executive director in replacement of a former independent non-executive director, Mr. Yuan Shaoli, with effect from January 2016.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(ii) Executive directors and non-executive director

	Fees RMB'000	Equity-settled share option expenses RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2016					
Executive directors:					
Mr. Zhao Juanxian (alias, Zhao Junxian) (趙雋賢)	316	–	2,153	–	2,469
Mr. Zhang Weizhong (張為眾)*	211	1,220	2,146	–	3,577
Ms. Liu Zhiwei (劉志偉)	211	1,032	1,655	10	2,908
Mr. Gu Weiping (顧衛平)	211	938	544	–	1,693
Mr. Wang Litong (王立彤)	211	938	1,655	42	2,846
	1,160	4,128	8,153	52	13,493
Non-executive director:					
Mr. Zhuang Ping (莊平)	211	–	–	–	211
	1,371	4,128	8,153	52	13,704
Year ended 31 December 2015					
Executive directors:					
Mr. Zhao Juanxian (alias, Zhao Junxian) (趙雋賢)	294	–	2,055	–	2,349
Mr. Zhang Weizhong (張為眾)*	195	2,479	1,477	–	4,151
Ms. Liu Zhiwei (劉志偉)	195	2,099	1,594	26	3,914
Mr. Gu Weiping (顧衛平)	195	1,907	549	5	2,656
Mr. Wang Litong (王立彤)	195	1,907	1,581	28	3,711
	1,074	8,392	7,256	59	16,781
Non-executive director:					
Mr. Zhuang Ping (莊平)	195	–	–	–	195
	1,269	8,392	7,256	59	16,976

* Mr. Zhang Weizhong is also the chief executive of the Company.

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included five directors during the year ended 31 December 2016 and four directors during the year ended 31 December 2015 respectively, details of whose remuneration are set out in note 8 above. Details of the remaining one highest paid employee during the year ended 31 December 2015 who are neither a director nor a chief executive of the Company are as follows:

	2016	2015
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**–**	1,595
Equity-settled share option expenses	**–**	1,907
Pension scheme contributions (defined contribution scheme)	**–**	44
	–	3,546

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

	2016	2015
HK$1,000,000 to HK$1,500,000	**–**	1

During the year ended 31 December 2014, share options were granted to one non-director highest paid employee in respect of his service to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of these options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director highest paid employee's remuneration disclosures.

10. INCOME TAX EXPENSE

Pursuant to The PRC Enterprise Income Tax Law Implementing Regulations (中華人民共和國企業所得稅法實施條例), most of the subsidiaries established in the PRC, engaged in the operations of waste water 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 years of generating operating revenue (the "3+3 Tax Holiday"). At the end of the year, these subsidiaries were qualified for the 3+3 Tax Holiday or in the process of preparation and submission of the required documents to the respective tax authorities to apply for the 3+3 Tax Holiday.

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 operating in the western region of Mainland China were subject to a preferential corporate income tax rate of 15%, provided that the revenues from principal activities comprise more than 70% of the total revenues in the year.

10. INCOME TAX EXPENSE *(continued)*

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

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

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

	2016 **RMB'000**	2015 RMB'000
Current		
— Mainland China	**37,426**	33,184
Deferred	**53,974**	75,316
Total tax charge for the year	**91,400**	108,500

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:

	2016 **RMB'000**	**%**	2015 RMB'000	%
Profit before tax	**437,392**		443,147	
Income tax charge at the statutory income tax rate	**109,348**	**25.0**	110,787	25.0
Effect of the preferential income tax rate for some entities	**(27,453)**	**(6.3)**	(19,235)	(4.3)
Expenses not deductible for tax purposes	**3,474**	**0.8**	3,587	0.8
Tax effect of tax losses not recognised	**12,721**	**2.9**	14,586	3.3
Tax effect of share of profits and losses of associates and a joint venture	**(6,690)**	**(1.5)**	(1,225)	(0.3)
Tax charge at the effective rate	**91,400**	**20.9**	108,500	24.5

The share of tax attributable to associates and a joint venture amounting to RMB6,192,000 (2015: RMB1,829,000) is included in "Share of profits and losses of associates" and "Share of profit and loss of a joint venture" in the profit or loss.

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

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

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

The share options that could have potentially dilutive impact on the basic earnings per share amount were issued in December 2014. No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2016 and 2015 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:

	2016	2015
	RMB'000	RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	**334,577**	324,883

	2016	2015
	Number of shares	Number of shares
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	**2,067,515,000**	2,067,515,000

12. PROPERTY, PLANT AND EQUIPMENT

31 December 2016

	Buildings and Other Infrastructure RMB'000	Machinery RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2016:					
Cost	63,424	22,386	29,976	9,892	125,678
Accumulated depreciation and impairment	(12,717)	(11,101)	(16,497)	–	(40,315)
Net carrying amount	50,707	11,285	13,479	9,892	85,363
At 1 January 2016, net of accumulated depreciation and impairment	50,707	11,285	13,479	9,892	85,363
Additions	–	–	3,429	6,481	9,910
Capital contribution from a non-controlling shareholder	12,434	–	–	–	12,434
Acquisition of subsidiaries (note 32)	91	120	312	–	523
Disposals	–	–	(711)	–	(711)
Transfer from construction in progress	–	–	1,492	(1,492)	–
Depreciation provided during the year	(3,454)	(1,498)	(2,485)	–	(7,437)
At 31 December 2016, net of accumulated depreciation and impairment	59,778	9,907	15,516	14,881	100,082
At 31 December 2016:					
Cost	75,951	22,530	34,614	14,881	147,976
Accumulated depreciation and impairment	(16,173)	(12,623)	(19,098)	–	(47,894)
Net carrying amount	59,778	9,907	15,516	14,881	100,082

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

31 December 2015

	Buildings and Other Infrastructure RMB'000	Machinery RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2015:					
Cost	57,750	9,995	26,193	9,892	103,830
Accumulated depreciation and impairment	(10,086)	(1,347)	(12,875)	–	(24,308)
Net carrying amount	47,664	8,648	13,318	9,892	79,522
At 1 January 2015, net of accumulated depreciation and impairment	47,664	8,648	13,318	9,892	79,522
Additions	–	47	2,545	–	2,592
Acquisition of subsidiaries	5,652	3,656	1,303	–	10,611
Disposals	–	–	(151)	–	(151)
Depreciation provided during the year	(2,609)	(1,066)	(3,536)	–	(7,211)
At 31 December 2015, net of accumulated depreciation and impairment	50,707	11,285	13,479	9,892	85,363
At 31 December 2015:					
Cost	63,424	22,386	29,976	9,892	125,678
Accumulated depreciation and impairment	(12,717)	(11,101)	(16,497)	–	(40,315)
Net carrying amount	50,707	11,285	13,479	9,892	85,363

At 31 December 2016, certain of the Group's buildings with a net carrying amount of approximately RMB21,283,000 (2015: RMB22,993,000) were pledged to secure certain bank loans granted to the Group (note 27).

Certain infrastructures with a net carrying amount as at 31 December 2016 of approximately RMB14,867,000 (2015: RMB15,540,000) are situated on a piece of land which is legally owned and provided for use by the non-controlling shareholder of Jilin Kangda Environmental Protection Company Limited ("Jilin Kangda"), a subsidiary of the Group. The subsidiary is contractually authorised to use the land without charge throughout its operating period.

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

13. INVESTMENT IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Share of net assets	**620,463**	58,582

Particulars of the associates are as follows:

Company name	Place of incorporation registration and operation	Issued and fully paid-up capital	Percentage of equity interest attributable to the Group	Principal activities
Nanchang Qingshanhu Project Co., Ltd. (南昌青山湖污水處理有限公司)#	Mainland China	RMB179,326,400	20	Construction, operation and management of WTPs
Zhongyuan Asset Management Co., Ltd. (中原資產管理有限公司)#	Mainland China	RMB3,000,000,000	15	Investment and asset management
Jiangsu Eastern Biological Sludge Treatment Engineering Co., Ltd. (江蘇東方生態清淤工程有限公司)#	Mainland China	RMB35,000,000	49	Treatment of sludge in rivers and lakes
Zhongyuan Kangda Environmental Protection Co., Ltd. (中原康達環保產業有限公司)#	Mainland China	RMB100,000,000	30	Construction, operation and management of environment protection and infrastructure projects

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

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

The Group's shareholdings in the associates all comprise equity shares held through a wholly-owned subsidiary of the Company.

13. INVESTMENT IN ASSOCIATES *(continued)*

The following table illustrates the summarised financial information in respect of Nanchang Qingshanhu Project Co., Ltd. ("Nanchang Qingshanhu") and Zhongyuan Asset, which are individually material, and reconciled to their carrying amounts in the consolidated financial statements:

	2016		2015
	Nanchang Qingshanhu RMB'000	**Zhongyuan Asset RMB'000**	Nanchang Qingshanhu RMB'000
Current assets	**219,077**	**7,589,637**	185,791
Non-current assets	**305,333**	**14,208,120**	268,956
Current liabilities	**(109,785)**	**(5,878,570)**	(119,298)
Non-current liabilities	**(37,425)**	**(12,065,015)**	(42,541)
Net assets	**377,200**	**3,854,172**	292,908
Non-controlling interests	**–**	**(620,694)**	–
Equity attributable to owners of the parent	**377,200**	**3,233,478**	292,908
Reconciliation to the Group's interests in the associates:			
Proportion of the Group's ownership	**20%**	**15%**	20%
Carrying amount of the interests in associates	**75,440**	**485,022**	58,582
Revenue	**207,570**	**284,144**	175,359
Profit for the year	**70,633**	**87,353**	24,493
Other comprehensive income	**–**	**95,967**	–
Total comprehensive income from the year	**70,633**	**183,320**	24,493
Dividends received	**–**	**–**	1,971

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2016 RMB'000	2015 RMB'000
Share of the associates' profit for the year	**846**	–
Share of the associates' total comprehensive income	**846**	–
Aggregate carrying amount of the Group's investments in the associates	**60,001**	–

14. INVESTMENT IN A JOINT VENTURE

	2016 RMB'000	2015 RMB'000
Share of net assets	**23,185**	–

The Group has a 49% equity interest in Jiangxi Kanggan Environmental Technology Co., Ltd., which engages in the treatment and processing of waste water in Nanchang city of Mainland China.

Particular of the joint venture is as follows:

Company name	Place of registration and operation	Issued and fully paid-up capital	Percentage of equity interest attributable to the Group	Principal activities
Jiangxi Kanggan Environmental Technology Co., Ltd. (江西康贛環保科技有限公司)#	PRC/ Mainland China	RMB50,000,000	49	Treatment and processing of waste water

The name of the company referred to in this report represent management's best effort at translating the Chinese name of the company registered in Mainland China, as no English name has been registered.

The above investment is held through a wholly-owned subsidiary of the Company.

The following table illustrates the aggregate financial information of the Group's joint venture that is not individually material:

	2016 RMB'000	2015 RMB'000
Share of the joint venture's loss for the year	**(1,315)**	–
Share of the joint venture's total comprehensive income	**(1,315)**	–
Aggregate carrying amount of the Group's investments in the joint venture	**23,185**	–

15. INTANGIBLE ASSETS

31 December 2016

	Service concession arrangements RMB'000	Software RMB'000	Construction in progress RMB'000	Total RMB'000
Cost at 1 January 2016, net of accumulated amortisation	–	1,374	1,780	3,154
Additions	115,488	–	65	115,553
Acquisition of subsidiaries	161,441	–	–	161,441
Amortisation provided during the year	(313)	(201)	–	(514)
At 31 December 2016	276,616	1,173	1,845	279,634
At 31 December 2016				
Cost	276,929	1,998	1,845	280,772
Accumulated amortisation	(313)	(825)	–	(1,138)
Net carrying amount	276,616	1,173	1,845	279,634

31 December 2015

	Software RMB'000	Construction in progress RMB'000	Total RMB'000
Cost at 1 January 2015, net of accumulated amortisation	1,321	–	1,321
Additions	238	1,780	2,018
Amortisation provided during the year	(185)	–	(185)
At 31 December 2015	1,374	1,780	3,154
At 31 December 2015			
Cost	1,998	1,780	3,778
Accumulated amortisation	(624)	–	(624)
Net carrying amount	1,374	1,780	3,154

16. GOODWILL

	Cash-generating units		Total
	Waste water treatment plant	Manufacture of chemicals for waste water treatment	
	RMB'000	RMB'000	RMB'000
At 1 January 2015:			
Cost and carrying amount	–	–	–
Acquisition of subsidiaries	41,155	1,894	43,049
At 31 December 2015	41,155	1,894	43,049
At 1 January 2016:			
Cost and carrying amount at 1 January 2016	**41,155**	**1,894**	**43,049**
Acquisition of subsidiaries (note 32)	**17,170**	**–**	**17,170**
At 31 December 2016	**58,325**	**1,894**	**60,219**

Impairment testing of goodwill

Goodwill acquired through business combinations in the amount of approximately RMB60,219,000 as at 31 December 2016 has been allocated to the waste water treatment plant and the manufacture of chemicals for waste water treatment cash-generating units for impairment testing. The recoverable amounts of the waste water treatment plant and the manufacture of chemicals for waste water treatment cash-generating units have been determined based on a value in use calculation using cash flow projections based on a financial budget covering a three-year period approved by senior management. The discount rates applied to the cash flow projections are 12.00% to 16.93% respectively.

Assumptions were used in the value in use calculation of the waste water treatment plant and the manufacture of chemicals for waste water treatment cash-generating units for 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on market development of industrial products and infrastructure industries, discount rates and raw materials price inflation are consistent with external information sources.

17. FINANCIAL RECEIVABLES

	2016 RMB'000	2015 RMB'000
Receivables for service concession arrangements	**7,044,612**	5,917,936
Receivables for BT arrangements	**9,643**	307,300
Net financial receivables	**7,054,255**	6,225,236
Portion classified as current assets	**(1,268,065)**	(1,375,168)
Non-current portion	**5,786,190**	4,850,068

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

Receivables for BT arrangements arose from the BT contracts to build municipal infrastructures or infrastructures related to WTPs and were recognised when the BT customers completed the 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.

As at 31 December 2016, the Group's financial receivables with a carrying value of RMB3,913,773,000 (2015: RMB3,680,551,000) were pledged to secure certain bank loans granted to the Group (note 27).

18. DEFERRED TAX

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

31 December 2016

Deferred tax liabilities	**Service concession arrangements RMB'000**	**Transaction costs for bank borrowings and corporate bonds RMB'000**	**Total RMB'000**
At 1 January 2016	(362,170)	(8,927)	(371,097)
Deferred tax liabilities recognised from acquisition of a subsidiary (note 32)	(23,347)	–	(23,347)
Deferred tax (charged)/credited to profit or loss during the year	(71,913)	537	(71,376)
At 31 December 2016	(457,430)	(8,390)	(465,820)

Deferred tax assets	**Fair value adjustments arising from acquisition of a subsidiary RMB'000**	**BT projects RMB'000**	**Losses available for offsetting against future taxable profits RMB'000**	**Total RMB'000**
At 1 January 2016	305	1,603	34,405	36,313
Deferred tax credited/(charged) to profit or loss during the year	(14)	(1,173)	18,589	17,402
At 31 December 2016	291	430	52,994	53,715

18. DEFERRED TAX *(continued)*

31 December 2015

Deferred tax liabilities	Service concession arrangements RMB'000	Transaction costs for bank borrowings and corporate bond RMB'000	Total RMB'000
At 1 January 2015	(251,760)	(5,378)	(257,138)
Deferred tax liabilities recognised from acquisition of a subsidiary	(32,875)	–	(32,875)
Deferred tax charged to profit or loss during the year	(77,535)	(3,549)	(81,084)
At 31 December 2015	(362,170)	(8,927)	(371,097)

Deferred tax assets	Fair value adjustments arising from acquisition of a subsidiary RMB'000	BT projects RMB'000	Losses available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2015	–	6,736	23,503	30,239
Deferred tax assets recognised from acquisition of a subsidiary	306	–	–	306
Deferred tax credited/(charged) to profit or loss during the year	(1)	(5,133)	10,902	5,768
At 31 December 2015	305	1,603	34,405	36,313

The Group also has tax losses arising in Mainland China of RMB329,036,000 (2015: RMB213,533,000) that will expire in two to five years for offsetting against future taxable profits.

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

At 31 December 2016, no deferred tax liability has been recognised for withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

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

19. 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 for individual customers of construction service is considered on a case-by-case basis. Trade receivables are non-interest-bearing.

	2016 **RMB'000**	2015 RMB'000
Trade receivables:		
Receivables for urban water treatment	**403,824**	226,270
Receivables for water environment comprehensive remediation	**346,310**	225,698
	750,134	451,968
Bills receivable	**15,074**	170,000
	765,208	621,968

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 years as follows:

	2016 **RMB'000**	2015 RMB'000
Within 3 months	**352,030**	336,636
4 to 6 months	**47,512**	39,958
7 to 12 months	**297,165**	17,948
Over 12 months	**53,427**	57,426
	750,134	451,968

19. TRADE AND BILLS RECEIVABLES *(continued)*

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

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**492,461**	309,684
Past due but not impaired:		
Less than 3 months past due	**106,473**	50,521
4 to 6 months past due	**47,512**	33,518
Over 6 months past due	**103,688**	58,245
	750,134	451,968

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.

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

	2016 RMB'000	2015 RMB'000
At beginning of the year	**–**	–
Impairment losses recognised (note (a))	**–**	33,547
Impairment losses written off (note (a))	**–**	(33,547)
At end of the year	**–**	–

Note:

(a) During the year ended 31 December 2015, the Group entered into a supplemental agreement with the customer of Jilin BT project on acceleration of cash settlement of BT receivables, according to which the customer was granted a discount of total amounting to RMB33,547,000.

19. TRADE AND BILLS RECEIVABLES *(continued)*

During the year ended 31 December 2016, Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd. (重慶康達環保產業（集團）有限公司) ("Chongqing Kangda") endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of their suppliers in order to settle the trade payables to such suppliers with an aggregate carrying amount of RMB297,300,000. Among the Derecognised Bills, there were RMB166,000,000 remaining undue as at 31 December 2016. The Derecognised Bills had a maturity of six months or one year. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2016, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year ended 31 December 2016 or cumulatively. The endorsement has been made evenly throughout the year ended 31 December 2016.

At 31 December 2016, the Group's trade receivables with a carrying value of RMB126,559,000 (2015: RMB177,343,000) were pledged to secure certain bank loans granted to the Group (note 27).

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 **RMB'000**	2015 RMB'000
Loans to third parties	**518,430**	–
Deposits	**135,549**	30,904
Prepayments	**79,891**	51,849
Staff advances	**6,535**	8,746
Other receivables	**312,348**	243,005
Less: Provision for impairment	**(1,747)**	–
	1,051,006	334,504
Portion classified as current assets	**(758,042)**	(179,544)
Non-current portion	**292,964**	154,960

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of RMB1,747,000 (2015: Nil) with a carrying amount before provision of RMB17,466,000 (2015: RMB13,402,000).

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

21. CONSTRUCTION CONTRACTS

	2016 RMB'000	2015 RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	**565,001**	343,156
Less: Progress billings	**(376,631)**	(161,796)
Gross amount due from contract customers for contract work	**188,370**	181,360

22. STRUCTURED DEPOSIT

On 28 December 2015, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, entered into an agreement with Industrial and Commercial Bank of China and ICBC Credit Suisse, to purchase a structured investment product, with maturity of six months, amounting to RMB450,400,000. The above financial assets are designated by the Company as financial assets at fair value through profit or loss and any fair value change is recognised in profit or loss. The amount has been redeemed by 23 June 2016.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016 RMB'000	2015 RMB'000
Cash and bank balances	**767,729**	1,410,990
Less: Pledged deposits	**(92,444)**	(119,220)
Cash and cash equivalents	**675,285**	1,291,770
Cash and bank balances denominated in:		
— RMB	**623,334**	1,153,409
— United States dollars	**23,484**	1,049
— Hong Kong dollars	**28,467**	137,312
Cash and cash equivalents	**675,285**	1,291,770

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 statement of financial position approximate to their fair values.

At 31 December 2016, the Group's pledged deposits with a carrying value of RMB24,517,000 (2015: RMB64,067,000) were pledged to secure certain bank loans granted to the Group (note 27).

24. AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

As at 31 December 2016, bank wealth management products amounting to RMB158,400,000 were purchased by the Group from certain banks. The principals of the above products are guaranteed by banks with flexible redemption terms. The Group redeemed the bank wealth management products amounting to RMB144,000,000, RMB300,000, RMB8,700,000, RMB500,000, RMB300,000, and RMB4,600,000 on 3 January 2017, 9 January 2017, 12 January 2017, 23 January 2017, 16 February 2017, and 28 February 2017 respectively.

No other comprehensive income or loss was recognised in the other comprehensive income for the year ended 31 December 2016, because the aggregate changes of fair value of the financial assets were immaterial since their respective acquisition dates.

25. TRADE AND BILLS PAYABLES

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

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

	2016 **RMB'000**	2015 RMB'000
Bills payable (note (a))	**117,848**	123,400
TOT payables (note (b))	**6,985**	16,985
Trade payables	**791,867**	627,609
	916,700	767,994
Less: non-current portion	**6,304**	3,640
Current portion	**910,396**	764,354

Notes:

(a) As at 31 December 2016, the Group's bills payable were secured by the pledged deposits amounting to RMB59,427,000 (2015: RMB54,354,000).

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

25. TRADE AND BILLS PAYABLES *(continued)*

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

	2016 RMB'000	2015 RMB'000
Within 3 months	**414,965**	357,210
4 months to 6 months	**145,824**	85,165
7 months to 12 months	**140,205**	151,799
Over 12 months	**215,706**	173,820
	916,700	767,994

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

26. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Payables for the acquisitions	**150,938**	98,611
Amounts due to non-controlling shareholders*	**49,215**	25,168
Other taxes payables	**13,585**	34,675
Interest payables	**9,898**	7,855
Salary and welfare payable	**5,457**	5,434
Other payables	**34,032**	30,013
	263,125	201,756

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

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

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2016			2015		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
— unsecured	3.92–4.50	2017	780,000	4.57–5.52	2016	700,000
Bank loans						
— secured	3.30–4.84	2017	789,639	3.70–6.16	2016	469,456
Current portion of long term bank loans — secured	4.75–8.00	2017	790,453	4.90–8.00	2016	409,231
			2,360,092			1,578,687
Non-current						
Long term other loans						
— unsecured	1.2	2026	30,000	–	–	–
Long term bank loans						
— secured	4.75–8.00	2018–2033	2,130,917	4.90–8.00	2017–2025	2,311,267
			2,160,917			2,311,267
			4,521,009			3,889,954
Interest-bearing bank and other borrowings denominated in						
— RMB			4,326,864			3,734,965
— Hong Kong dollars			138,649			154,989
— US dollars			55,496			–
			4,521,009			3,889,954

	2016 RMB'000	2015 RMB'000
Analysed into:		
Bank and other borrowings repayable:		
Within one year	2,360,092	1,578,687
In the second year	463,099	717,106
In the third to fifth years, inclusive	1,037,314	930,535
Beyond five years	660,504	663,626
	4,521,009	3,889,954

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

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

	2016 RMB'000	2015 RMB'000
Property, plant and equipment (note 12)	**21,283**	22,993
Investment properties	**1,592**	1,850
Financial receivables (note 17)	**3,913,773**	3,680,551
Trade and bills receivables (note 19)	**126,559**	177,343
Pledged deposits (note 23)	**24,517**	64,067
Investments in subsidiaries	**384,920**	261,400

The Group's bank borrowings of RMB50,700,000 (2015: RMB79,700,000) were secured by the investment in the subsidiary, Beijing Chang Sheng Si Yuan Environmental Protection Technology Co., Ltd. (北京長盛思源環保科技有限公司). The Group's bank borrowings of RMB69,120,000 (2015: Nil) were secured by the investment in the subsidiary, Dong'e Guohuan. The Group's bank borrowings of RMB91,000,000 (2015: Nil) were secured by the investment in the subsidiary, Guangrao Kangda Environmental Protection Water Co., Ltd. (廣饒康達環保水務有限公司), a wholly-owned subsidiary of the Company.

The Group's bank borrowings of RMB50,000,000 (2015: Nil) were secured by Mr. Zhao Juanxian, who is the controlling shareholder of the Company.

28. CORPORATE BONDS

A corporate bond with a principal amount of RMB300,000,000 was issued by Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, to certain institutional investors on 7 December 2016 pursuant to the subscription agreement dated 29 November 2016, which is due on 7 June 2017 and bears interest at the rate of 4.5% per annum.

A corporate bond with a principal amount of RMB60,000,000 was issued by Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, to certain institutional investors on 30 June 2016 pursuant to the subscription agreement dated 23 June 2016, which is due on 1 July 2019 and bears interest at the rate of 5.8% per annum.

As at 31 December 2016, the carrying amount of the bond issued by the Group on 18 December 2015 was RMB887,296,000, with a maturity date on 18 December 2022 and an interest rate at 5.5% per annum, offering the issuer an option to adjust the interest rate at the end of the third and fifth years.

	2016 RMB'000	2015 RMB'000
Unsecured short term corporate bond	**300,000**	–
Unsecured long term corporate bonds	**946,825**	885,556
	1,246,825	885,556

29. SHARE CAPITAL

Shares

	2016 **RMB'000**	2015 RMB'000
Authorised:		
5,000,000,000 (2015: 5,000,000,000) ordinary shares of HK$0.01 each	**39,766**	39,766
Issued and fully paid:		
2,067,515,000 (2015: 2,067,515,000) ordinary shares of HK$0.01 each	**16,444**	16,444

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

	Number of shares in issue	**Issued capital** RMB'000	**Share premium** RMB'000	**Total** RMB'000
At 1 January 2016 and 31 December 2016	2,067,515,000	16,444	1,758,407	1,774,851

30. SHARE OPTION SCHEME

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

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

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

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

30. SHARE OPTION SCHEME *(continued)*

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

	Weighted average exercise price HK$ per share	**Number of options** '000
At 1 January 2016	3.386	84,200
Forfeited during the year	3.386	12,500
Expired during the year	3.386	21,510
At 31 December 2016	3.386	50,190

No share options were granted during the year (2015: Nil), of which the Group recognised a share option expense of RMB15,857,000 (2015: 32,232,000) during the year ended 31 December 2016.

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

	2016
Dividend yield (%)	–
Expected volatility (%)	41.88~44.80
Historical volatility (%)	41.88~44.80
Risk-free interest rate (%)	0.508~1.186
Expected life of options (year)	1~3
Annual employer retaining rate (%)	95

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

No other features of the options granted were incorporated into the measurement of fair value.

During the year, there were no share options exercised. At the end of the year, the Company had 50,190,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 50,190,000 additional ordinary shares of the Company and additional share capital of HK$169,943,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 50,190,000 share options outstanding under the Share Option Scheme, which represented approximately 2.43% of the Company's shares in issue as at that date.

31. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 64 of the financial statements.

32. BUSINESS COMBINATIONS

On 21 January 2016, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, acquired a 90% interest in Dong'e Guohuan, Jiaming Guohuan and Linqing Guohuan at a total consideration of approximately RMB257,400,000, of which RMB112,960,000 and RMB105,831,000 have been paid during the year ended 31 December 2015 and 31 December 2016 respectively and RMB38,609,000 remained unsettled at 31 December 2016.

On 13 December 2016, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, acquired a 100% interest in Qitaihe at a total consideration of approximately RMB116,241,000, of which RMB99,762,000 has been paid during the year ended 31 December 2016 and RMB16,479,000 remained unsettled at 31 December 2016.

On 14 December 2016, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, acquired a 70% interest in Xinzheng Xinkang at a total consideration of approximately RMB42,000,000, of which RMB12,000,000 and RMB10,000,000 have been paid during the year ended 31 December 2015 and 31 December 2016 respectively and RMB20,000,000 remained unsettled at 31 December 2016.

On 31 December 2016, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, acquired a 95% interest in Qishan at a total consideration of approximately RMB20,544,000, of which RMB18,544,000 has been paid during the year ended 31 December 2016 and RMB2,000,000 remained unsettled at 31 December 2016.

The above acquisitions were made as part of the Group's strategy to expand its market geographic coverage in the waste water treatment industry or reclaimed waste water treatment industry and increase the operating efficiency of WTPs or RWTPs.

32. BUSINESS COMBINATIONS *(continued)*

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

	Notes	Dong'e/ Jiaming/ Linqing Guohuan RMB'000	Qitaihe RMB'000	Xinzheng Xinkang RMB'000	Qishan RMB'000
Property, plant and equipment	12	458	45	–	20
Inventories		84	95	–	35
Financial receivables		266,890	–	60,000	119,011
Intangible assets		–	161,441	–	–
Trade and bills receivables		14,599	25,895	–	2,917
Prepayments, deposits and other receivables		1,007	26	–	1,262
Cash and cash equivalents		842	2	–	342
Trade and bills payables		(6,738)	(1,379)	–	(4,202)
Other payables and accruals		(7,477)	(29,439)	–	(88,200)
Interest-bearing bank borrowings		–	(29,382)	–	–
Deferred tax liabilities	18	(2,448)	(11,121)	–	(9,778)
Total identifiable net assets at fair value		267,217	116,183	60,000	21,407
Non-controlling interests		(26,722)	–	(18,000)	(1,070)
Goodwill on acquisition		16,905	58	–	207
Purchase consideration at fair value		257,400	116,241	42,000	20,544

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

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

32. BUSINESS COMBINATIONS *(continued)*

	Dong'e/ Jiaming/ Linqing Guohuan RMB'000	Qitaihe RMB'000	Xinzheng Xinkang RMB'000	Qishan RMB'000
An analysis of the cash flows in respect of the acquisitions is as follows:				
Cash consideration paid during the year	(105,831)	(99,762)	(10,000)	(18,544)
Cash and cash equivalents acquired	842	2	–	342
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(104,989)	(99,760)	(10,000)	(18,202)
Transaction costs of the acquisition included in cash flows from operating activities	–	–	–	–

Since the acquisitions, Dong'e/Jiaming/Linqing Guohuan contributed approximately RMB41,063,000 to the Group's revenue and approximately RMB26,714,000 to the Group's profit for the year ended 31 December 2016. Qitaihe contributed approximately RMB794,000 to the Group's revenue and approximately RMB129,000 to the Group's profit for the year ended 31 December 2016. Xinzheng Xinkang contributed approximately RMB827,000 to the Group's revenue and approximately RMB630,000 to the Group's profit for the year ended 31 December 2016.

Had the acquisitions taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB1,990,436,000 and RMB343,759,000, respectively.

During the year, the Group also settled certain outstanding considerations by cash in relation to the business combinations for the year ended 31 December 2015 amounting to RMB31,400,000.

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**706**	637
In the second to fifth years, inclusive	**2,105**	2,786
After five years	**–**	193
	2,811	3,616

(b) As lessee

The Group leases certain office properties and land property under operating lease arrangements with leases negotiated for terms ranging from 1 to 23 years (2015: 1 to 24 years).

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**3,634**	4,770
In the second to fifth years, inclusive	**1,462**	3,295
Over five years	**2,080**	1,844
	7,176	9,909

34. CONTINGENT LIABILITIES

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

35. PLEDGE OF ASSETS

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

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 33(b) above, the Group had the following commitments:

(a) Capital commitments

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

	2016	2015
	RMB'000	RMB'000
Contracted, but not provided for	**838,060**	552,595

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

	2016	2015
	RMB'000	RMB'000
Contracted, but not provided for	**2,836,148**	1,024,853

37. RELATED PARTY TRANSACTIONS

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

	2016 RMB'000	2015 RMB'000
Certain expenses of the Group paid by non-controlling shareholders of:		
Qitaihe	**20,579**	–
Seven Guohuan subsidiaries	**3,718**	731
Qishan	**3,119**	–
Pingdingshan City Bay	**2,138**	65,456
Xinzhongzhou Water and Xinzheng Xinkang	**110**	500
Jilin Kangda	**443**	–
Hebi Kangda	**–**	8,700
Certain expenses paid by the Group for Chongqing Kangte*	**–**	33,000
Acquisition considerations paid by the Group to non-controlling shareholders of:		
Seven Guohuan Subsidiaries	**164,891**	18,286
Qitaihe	**99,762**	–
Qishan	**18,544**	–
Pingdingshan City Bay	**15,119**	88,054
Xinzheng Xinkang	**10,000**	–
Weifang Shuangjie	**3,412**	3,592
Xinzhongzhou Water	**–**	21,000
Acquisition deposits paid by the Group to non-controlling shareholders of:		
Seven Guohuan subsidiaries	**–**	112,960
Xinzhongzhou Water	**–**	12,000
Certain expenses paid by the Group for non-controlling shareholders of:		
Xinzhongzhou Water and Xinzheng Xinkang	**2,856**	5,748
Pingdingshan City Bay	**2,000**	9,649
Seven Guohuan Subsidiaries	**299**	1,884
Hebi Kangda	**–**	2,950

* Chongqing Kangte Environmental Protection Industry Holdings Co., Ltd. ("Chongqing Kangte") is an external affiliate party of the Group.

37. RELATED PARTY TRANSACTIONS *(continued)*

The Group is contractually authorised to use a piece of land which is legally owned by the non-controlling shareholder of Jilin Kangda without charge, and such use also constitutes a related party transaction during the year. Meanwhile, the Group is also authorised to use certain infrastructures without charge which are legally owned and provided by the non-controlling shareholder of Xinzhongzhou Water.

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

The Group's bank borrowings in 2016 amounting to RMB50,000,000 (2015: Nil) were secured by Mr. Zhao Juanxian, who is the controlling shareholder (note 27).

(b) Outstanding balances with related parties

	2016	2015
	RMB'000	RMB'000
Amounts due to non-controlling shareholders of:		
Seven Guohuan subsidiaries from Shandong Guohuan	**64,439**	29,435
Pingdingshan City Bay	**55,075**	65,456
Qitaihe	**37,058**	–
Xinzhongzhou Water and Xinzheng Xinkang	**20,110**	500
Hebi Kangda	**12,000**	12,000
Jilin Kangda	**11,443**	11,000
Qishan	**5,119**	–

	2016	2015
	RMB'000	RMB'000
Amounts due from non-controlling shareholders of:		
Pingdingshan City Bay	**11,649**	9,649
Xinzhongzhou Water and Xinzheng Xinkang	**4,604**	13,748
Hebi Kangda	**2,950**	2,950
Seven Guohuan subsidiaries	**1,729**	114,844

(c) Compensation of key management personnel of the Group

	2016	2015
	RMB'000	RMB'000
Short term employee benefits	**2,599**	1,926
Equity-settled share option expenses	**188**	2,289
Post-employment benefits	**31**	44
Total compensation paid to key management personnel	**2,818**	4,259

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

38. FINANCIAL INSTRUMENTS BY CATEGORY

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

31 December 2016

Financial assets

	Available-for-sale financial investments RMB'000	Loans and receivables RMB'000	Total RMB'000
Available-for-sale financial investments	158,400	–	158,400
Financial receivables	–	7,054,255	7,054,255
Trade and bills receivables	–	765,208	765,208
Financial assets included in prepayments, deposits and other receivables	–	904,831	904,831
Pledged deposits	–	92,444	92,444
Cash and cash equivalents	–	675,285	675,285
	158,400	9,492,023	9,650,423

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	916,700	916,700
Financial liabilities included in other payables and accruals	257,276	257,276
Interest-bearing bank and other borrowings	4,521,009	4,521,009
Corporate bonds	1,246,825	1,246,825
	6,941,810	6,941,810

38. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

31 December 2015

Financial assets

	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Structured deposit	450,400	–	450,400
Financial receivables	–	6,225,236	6,225,236
Trade and bills receivables	–	621,968	621,968
Financial assets included in prepayments, deposits and other receivables	–	132,730	132,730
Pledged deposits	–	119,220	119,220
Cash and cash equivalents	–	1,291,770	1,291,770
	450,400	8,390,924	8,841,324

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	767,994	767,994
Financial liabilities included in other payables and accruals	195,077	195,077
Interest-bearing bank borrowings	3,889,954	3,889,954
Corporate bonds	885,556	885,556
	5,738,581	5,738,581

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Structured deposit	**–**	450,400	**–**	450,400
Available-for-sale financial investments	**158,400**	–	**158,400**	–
Prepayments, deposits and other receivables, non-current portion	**250,000**	–	**295,482**	–
Financial receivables, non-current portion	**5,786,190**	4,850,068	**6,177,787**	4,806,832
	6,194,590	5,300,468	**6,631,669**	5,257,232
Financial liabilities				
Trade and bills payables, non-current portion	**6,304**	3,640	**6,010**	3,429
Interest-bearing bank and other borrowings, non-current portion	**2,160,917**	2,311,267	**2,188,535**	2,274,101
Corporate bonds	**1,246,825**	885,556	**1,246,825**	885,556
	3,414,046	3,200,463	**3,441,370**	3,163,086

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, the current portion of financial receivables, the current portion of trade and bills payables, the current portion of financial assets included in prepayments, deposits and other receivables, the current portion of financial liabilities included in other payables and accruals, and the current portion of interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value disclosure of financial instruments. The finance manager reports directly to the chief financial officer. At the end of the year, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

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

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

The fair values of the non-current portion of financial receivables, prepayments, deposits and other receivables, trade and bills payables, interest-bearing bank and other borrowings, and corporate bonds have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risks for trade and bills payables, interest-bearing bank and other borrowings, and corporate bonds as at the end of the year were assessed to be insignificant.

Fair value hierarchy

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

Assets for which fair values are disclosed:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Prepayments, deposits and other receivables, non-current portion	–	295,482	–	295,482
Financial receivables, non-current portion	–	6,177,787	–	6,177,787
	–	6,473,269	–	6,473,269

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

Fair value hierarchy *(continued)*

Assets measured at fair value:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Available-for-sale financial investments	**–**	**158,400**	**–**	**158,400**

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Structured deposit	–	450,400	–	450,400

Assets for which fair values are disclosed:

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial receivables, non-current portion	–	4,806,832	–	4,806,832

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

Fair value hierarchy *(continued)*

Liabilities for which fair values are disclosed:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Trade and bills payables, non-current portion	**–**	**6,010**	**–**	**6,010**
Interest-bearing bank and other borrowings, non-current portion	**–**	**2,188,535**	**–**	**2,188,535**
Corporate bonds	**–**	**1,246,825**	**–**	**1,246,825**
	–	**3,441,370**	**–**	**3,441,370**

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Trade and bills payables, non-current portion	–	3,429	–	3,429
Interest-bearing bank borrowings, non-current portion	–	2,274,101	–	2,274,101
Corporate bond	–	885,556	–	885,556
	–	3,163,086	–	3,163,086

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(a) Interest rate risk

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

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

If there would be a general increase/decrease in the market interest rates by one percentage point, with all other variables held constant, the Group's consolidated pre-tax profit would have decreased/increased by approximately RMB35,828,226 and RMB42,004,902 for the years ended 31 December 2016 and 2015 respectively, and there would be no impact on other components of the consolidated equity, except for retained profits, of the Group. The sensitivity analysis above has been determined assuming that the change in market interest rates had occurred at the end of the years and had applied the exposure to interest rate risk to those financial instruments in existence at those dates.

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

(b) Credit risk

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

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

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

(c) Liquidity risk

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

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

(c) Liquidity risk *(continued)*

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

	31 December 2016				
	Within 1 year RMB'000	**1 to 2 years RMB'000**	**2 to 5 years RMB'000**	**More than 5 years RMB'000**	**Total RMB'000**
Interest-bearing bank and other borrowings	**2,552,268**	**469,753**	**1,071,228**	**674,935**	**4,768,184**
Corporate bonds	**366,480**	**52,980**	**211,980**	**949,500**	**1,580,940**
Trade bills and payables	**910,396**	**6,304**	**–**	**–**	**916,700**
Financial liabilities included in other payables and accruals	**257,276**	**–**	**–**	**–**	**257,276**
	4,086,420	**529,037**	**1,283,208**	**1,624,435**	**7,523,100**

	31 December 2015				
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	1,789,048	855,050	1,168,308	698,808	4,511,214
Corporate bonds	49,500	49,500	148,500	999,000	1,246,500
Trade bills and payables	764,354	3,640	–	–	767,994
Financial liabilities included in other payables and accruals	195,077	–	–	–	195,077
	2,797,979	908,190	1,316,808	1,697,808	6,720,785

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

(d) Capital management

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

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

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

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

	2016 **RMB'000**	2015 RMB'000
Trade and bills payables (note 25)	**916,700**	767,994
Other payables and accruals (note 26)	**263,125**	201,756
Interest-bearing bank and other borrowings (note 27)	**4,521,009**	3,889,954
Corporate bonds (note 28)	**1,246,825**	885,556
Less: Cash and cash equivalents (note 23)	**(675,285)**	(1,291,770)
Less: Pledged deposits (note 23)	**(92,444)**	(119,220)
Net debt	**6,179,930**	4,334,270
Total equity	**3,693,167**	3,330,683
Capital and net debt	**9,873,097**	7,664,953
Gearing ratio	**63%**	57%

41. EVENTS AFTER THE REPORTING PERIOD

On 16 December 2016, Kangda Investment (Hong Kong) Company Limited, an indirectly wholly-owned subsidiary of the Company, entered into an agreement with China Meiling Environment Holdings Pte. Ltd. (中國美陵環境控股有限公司(新加坡)) ("China Meiling") for the acquisition of an 100% equity interest in Meiling Environmental Science and Technology (Zibo) Co., Ltd. (美陵環境科技(淄博)有限公司) ("Meiling Environmental"), which is a wholly-owned subsidiary of China Meiling, at a consideration of RMB377,250,000. Since the acquisition was not yet completed on the date of approval of these financial statements, it is not practicable to disclose further details about the acquisition.

On 30 March 2017, the board of directors of the Company recommends a final dividend of RMB1.6 cents per ordinary share (2015: RMB1.6 cents per ordinary share) for the year ended 31 December 2016. The proposed final dividend for the year is subject to the approval of the Company's Shareholders at the forthcoming annual general meeting.

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**1,212,032**	1,212,032
Total non-current assets	**1,212,032**	1,212,032
CURRENT ASSETS		
Prepayments, deposits and other receivables	**673,726**	664,267
Cash and cash equivalents	**205**	168
Total current assets	**673,931**	664,435
CURRENT LIABILITIES		
Other payables and accruals	**8,182**	32,084
Total current liabilities	**8,182**	32,084
NET CURRENT ASSETS	**665,749**	632,351
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,877,781**	1,844,383
Net assets	**1,877,781**	1,844,383
EQUITY		
Issued capital	**16,444**	16,444
Reserves (note)	**1,861,337**	1,827,939
Total equity	**1,877,781**	1,844,383

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Share option reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2015	1,791,487	1,191	(22,911)	1,769,767
Total comprehensive income for the year	–	–	25,940	25,940
Equity-settled share option expense	–	32,232	–	32,232
At 31 December 2015	1,791,487	33,423	3,029	1,827,939
At 1 January 2016	**1,791,487**	**33,423**	**3,029**	**1,827,939**
Final 2015 dividends declared	**(33,080)**	**–**	**–**	**(33,080)**
Total comprehensive income for the year	**–**	**–**	**50,621**	**50,621**
Equity-settled share option expense	**–**	**15,857**	**–**	**15,857**
At 31 December 2016	**1,758,407**	**49,280**	**53,650**	**1,861,337**

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2017.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and total equity of the Group for the last five financial years is as set below:

RESULTS

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,926,502**	1,836,478	1,812,781	1,339,679	999,315
Profit before tax	**437,392**	443,147	381,716	281,679	233,069
Income tax	**91,400**	108,500	85,241	49,050	35,696
Profit for the year	**345,992**	334,647	296,475	232,629	197,373
Other comprehensive income	**14,395**	–	–	–	–
Total comprehensive income for the year	**360,387**	334,647	296,475	232,629	197,373
PROFIT ATTRIBUTABLE TO:					
Shareholders of the Company	**334,577**	324,883	294,788	231,563	196,540
Non-controlling interests	**11,415**	9,764	1,687	1,066	833
	345,992	334,647	296,475	232,629	197,373
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Shareholders of the Company	**348,972**	324,883	294,788	231,563	196,540
Non-controlling interests	**11,415**	9,764	1,687	1,066	833
	360,387	334,647	296,475	232,629	197,373

ASSETS, LIABILITIES AND TOTAL EQUITY

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**11,160,451**	9,465,810	7,610,810	4,713,807	3,876,800
Total liabilities	**7,467,284**	6,135,127	4,686,095	3,361,077	2,760,699
NET ASSETS	**3,693,167**	3,330,683	2,924,715	1,352,730	1,116,101
Equity attributable to shareholders of the Company	**3,546,985**	3,200,028	2,842,913	1,340,381	1,108,818
Non-controlling interests	**146,182**	130,655	81,802	12,349	7,283
TOTAL EQUITY	**3,693,167**	3,330,683	2,924,715	1,352,730	1,116,101