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雲南水務投資股份有限公司

**Yunnan Water Investment Co., Limited\***

*(a joint stock limited liability company incorporated in the People's Republic of China)*

**(Stock code: 6839)**

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**FINANCIAL HIGHLIGHTS**

- Revenue was approximately RMB2,865.9 million, representing an increase of approximately 83.9% compared with the year ended 31 December 2015
- Profit for the year was approximately RMB414.3 million, representing an increase of approximately 30.5% compared with the year ended 31 December 2015
- Profit attributable to ordinary shareholders of the Company was approximately RMB388.1 million, representing an increase of approximately 35.7% compared with the year ended 31 December 2015
- Basic earnings per share was approximately RMB0.325, representing an increase of approximately 20.4% compared with the year ended 31 December 2015
- The Board recommends the distribution of final dividend of RMB0.1 per share (tax included) for the year ended 31 December 2016

The board (the “**Board**”) of directors (the “**Director(s)**”) of Yunnan Water Investment Co., Limited\* (the “**Company**”) is pleased to announce the audited consolidated results and financial position of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2016 (the “**Reporting Period**”) together with the comparative figures as follows:

## I. FINANCIAL INFORMATION OF THE GROUP

### (a) Consolidated statement of profit or loss and other comprehensive income

		Year ended 31 December	
		2016	2015
	Note	RMB'000	RMB'000
Revenue	2	2,865,890	1,558,394
Cost of sales		<u>(1,986,390)</u>	<u>(1,050,772)</u>
<b>Gross profit</b>		879,500	507,622
Other income	3	160,389	97,552
Other gains - net		8,387	12,402
Selling expenses		(22,810)	(17,187)
Administrative expenses		<u>(331,001)</u>	<u>(181,220)</u>
<b>Operating profit</b>		694,465	419,169
Finance income	4	12,674	25,553
Finance expenses	4	<u>(232,816)</u>	<u>(66,749)</u>
Finance costs - net	4	(220,142)	(41,196)
Share of profit of investments accounted for using the equity method		<u>42,411</u>	<u>4,896</u>
<b>Profit before income tax</b>		516,734	382,869
Income tax expenses	5	<u>(102,468)</u>	<u>(65,426)</u>
<b>Profit for the year</b>		<u>414,266</u>	<u>317,443</u>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Currency translation differences		5,123	976
Share of other comprehensive income of investments accounted for using the equity method		<u>(29,643)</u>	<u>—</u>
		<u>(24,520)</u>	<u>976</u>
<b>Total comprehensive income for the year</b>		<u>389,746</u>	<u>318,419</u>
<b>Profit attributable to:</b>			
Ordinary shareholders of the Company		388,093	285,853
Non-controlling interests		<u>26,173</u>	<u>31,590</u>
		<u>414,266</u>	<u>317,443</u>
<b>Total comprehensive income attributable to:</b>			
Ordinary shareholders of the Company		363,573	286,829
Non-controlling interests		<u>26,173</u>	<u>31,590</u>
		<u>389,746</u>	<u>318,419</u>
<b>Earnings per share for profit attributable to ordinary shareholders of the Company (expressed in RMB per share)</b>			
- Basic and diluted	6	<u>0.325</u>	<u>0.270</u>

(b) Consolidated balance sheet

		As at 31 December	
		2016	2015
	Note	RMB'000	RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		2,326,287	1,617,329
Investment properties		17,177	17,764
Land use rights		192,381	121,311
Receivables under service concession arrangements	8	2,860,146	1,941,739
Amounts due from customers for contract works		659,974	404,142
Intangible assets		4,560,375	1,711,249
Investments accounted for using the equity method		746,680	34,925
Available-for-sale financial assets		4,675	—
Trade and other receivables	9	128,605	57,410
Prepayments	9	1,230,108	715,826
Deferred income tax assets		245,992	56,173
		<u>12,972,400</u>	<u>6,677,868</u>
<b>Current assets</b>			
Receivables under service concession arrangements	8	31,082	11,540
Inventories		27,385	20,595
Amounts due from customers for contract works		30,614	3,477
Trade and other receivables	9	2,723,824	1,044,376
Prepayments	9	133,538	152,711
Restricted cash		9,610	19,603
Cash and cash equivalents		4,129,921	1,672,121
		<u>7,085,974</u>	<u>2,924,423</u>
<b>Total assets</b>		<u>20,058,374</u>	<u>9,602,291</u>
<b>EQUITY</b>			
<b>Equity attributable to ordinary shareholders of the Company</b>			
Share capital		1,193,213	1,193,213
Other reserves		2,247,305	2,264,254
Retained earnings		800,051	600,956
		4,240,569	4,058,423
Perpetual capital instruments		2,000,000	—
Non-controlling interests		1,005,890	884,189
<b>Total equity</b>		<u>7,246,459</u>	<u>4,942,612</u>

(b) Consolidated balance sheet (Continued)

		As at 31 December	
		2016	2015
	Note	RMB'000	RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	10	5,689,554	2,025,960
Trade and other payables	11	49,055	54,514
Deferred income		646,997	164,876
Deferred income tax liabilities		646,890	198,116
Provision		<u>78,717</u>	<u>25,791</u>
		<u>7,111,213</u>	<u>2,469,257</u>
<b>Current liabilities</b>			
Borrowings	10	2,608,925	1,038,355
Trade and other payables	11	2,858,512	1,074,341
Amounts due to customers for contract works		3,333	4,552
Current income tax liabilities		<u>229,932</u>	<u>73,174</u>
		<u>5,700,702</u>	<u>2,190,422</u>
<b>Total liabilities</b>		<u>12,811,915</u>	<u>4,659,679</u>
<b>Total equity and liabilities</b>		<u>20,058,374</u>	<u>9,602,291</u>

## II. NOTES TO THE FINANCIAL INFORMATION

### 1. Basis of preparation and summary of significant accounting policies

Yunnan Water Investment Co., Limited (the “Company”) was incorporated in Yunnan Province of the People’s Republic of China (the “PRC”) on 21 June 2011. On 22 July 2014, the Company was converted from a limited liability company into a joint stock limited liability company with registered capital of RMB787,880,000. The address of its registered office is 16th Floor, Block A Hecheng International, 1088 Haiyuan Zhong Road, Gaoxin District, Kunming, Yunnan Province, the PRC. The Company is an investment holding company. The Company and its subsidiaries (together the “Group”) are principally engaged in the development, design, construction, operation and maintenance of municipal water supply, wastewater treatment and solid waste treatment facilities in the PRC.

The Company’s H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 27 May 2015.

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) .

#### *Changes in accounting policies and disclosures*

##### (a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the Group’s financial year beginning 1 January 2016. The adoption of these new standards and amendments to standards does not have significant impact to the results or financial position of the Group.

Annual Improvements 2014	Annual improvements 2012~2014 cycle
HKFRS 14	Regulatory deferral accounts
HKFRS 11 (Amendment)	Accounting for acquisition of interests in joint operations
HKAS 16 and HKAS 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation
HKAS 27 (Amendment)	Equity method in separate financial statements
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment entities: applying the consolidation exception
HKAS1 (Amendment)	Disclosure initiative

##### (b) New and amended standards not yet adopted by the Group

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements.

HKAS 12 (Amendments)	Income taxes <sup>1</sup>
HKAS 7 (Amendments)	Statement of cash flows <sup>1</sup>

HKFRS 15	Revenue from contracts with consumers <sup>2</sup>
HKFRS 2 (Amendments)	Classification and measurement of share-based payment transactions <sup>2</sup>
HKFRS 9	Financial instruments <sup>2</sup>
HKFRS 16	Leases <sup>3</sup>
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture <sup>4</sup>

<sup>1.</sup> Effective for annual periods beginning on 1 January 2017.

<sup>2.</sup> Effective for annual periods beginning on 1 January 2018.

<sup>3.</sup> Effective for annual periods beginning on 1 January 2019.

<sup>4.</sup> Effective date to be determined.

The Group is in the process of making an assessment of the impact of the new standards and amendments to the standards but is not yet in a position to state whether these new standards and amendments to standards would have a significant impact to the Group's results of operations and financial position.

## 2. Segment information

The executive directors of the Company are the chief operating decision-maker of the Group. Management has determined the operating segments based on reports reviewed by the executive directors of the Company for the purpose of allocating resources and assessing performance.

The executive directors of the Company consider the business from product and service perspective. The Group is organised into five business segments as below:

- (a) Wastewater treatment;
- (b) Water supply;
- (c) Construction and sales of equipment;
- (d) Solid waste treatment;
- (e) Others, including operation and maintenance services and other businesses.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment results, which is a measure of revenue and gross profit of each operating segment.

The amounts provided to the executive directors of the Company with respect to total assets and total liabilities are measured in a manner consistent with that of the financial statements. These assets and liabilities are allocated based on the operations of the segment.

## 2. Segment information (Continued)

Unallocated assets mainly represented cash and cash equivalents, certain prepayments, certain receivables and investments accounted for using the equity method of the group entities engaging in multiple business segments. Management considered that it is impracticable or not meaningful in allocating to different segments.

Unallocated liabilities mainly represented borrowings, certain payables and deferred income of the group entities engaging in multiple business segments. Management considered that it is impracticable or not meaningful in allocating to different segments.

(i) Segment results and capital expenditure for the year ended 31 December 2016 are as follows:

### Year ended 31 December 2016:

	Wastewater treatment	Water supply	Construction and sales of equipment	Solid waste treatment	Others	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Gross segment revenue	628,365	639,401	1,426,132	425,280	63,244	—	3,182,422
Inter-segment revenue	—	—	(316,532)	—	—	—	(316,532)
Revenue	628,365	639,401	1,109,600	425,280	63,244	—	2,865,890
Gross profit	318,001	119,569	329,886	88,450	23,594	—	879,500
Other income							160,389
Other gains - net							8,387
Selling expenses							(22,810)
Administrative expenses							(331,001)
Finance costs - net							(220,142)
Share of profit of investments accounted for using the equity method	16,800	23,196	—	—	2,415	—	42,411
Profit before income tax							516,734
Income tax expenses							(102,468)
Profit for the year							414,266
Depreciation and amortisation	(35,662)	(60,641)	(8,310)	(84,985)	(5,472)	(14,400)	(209,470)
Segment assets	4,396,604	3,388,706	2,256,373	3,217,256	924,381	5,875,054	20,058,374
Segment assets include:							
Investments accounted for using the equity method	297,923	411,416	—	—	37,341	—	746,680
Segment liabilities	745,374	908,912	1,242,292	874,421	332,245	8,708,671	12,811,915
Additions to non-current assets (other than financial instruments and deferred income tax assets)	418,947	1,979,052	14,828	1,264,089	136,186	51,045	3,864,147

## 2. Segment information (Continued)

Year ended 31 December 2015:

	Wastewater treatment	Water supply	Construction and sales of equipment	Solid waste treatment	Others	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Gross segment revenue	420,009	454,577	644,183	8,220	78,594	—	1,605,583
Inter-segment revenue	—	—	(47,189)	—	—	—	(47,189)
Revenue	420,009	454,577	596,994	8,220	78,594	—	1,558,394
Gross profit	207,672	108,507	144,384	1,271	45,788	—	507,622
Other income							97,552
Other gains - net							12,402
Selling expenses							(17,187)
Administrative expenses							(181,220)
Finance costs - net							(41,196)
Share of profit/(loss) of investments accounted for using the equity method	4,971	—	—	—	(75)	—	4,896
Profit before income tax							382,869
Income tax expenses							(65,426)
Profit for the year							317,443
Depreciation and amortisation	(31,376)	(21,448)	(9,181)	(3,841)	(2,279)	(6,012)	(74,137)
Segment assets	2,756,951	815,567	1,192,471	2,168,355	393,268	2,275,679	9,602,291
Segment assets include:							
Investments accounted for using the equity method	—	—	—	—	34,925	—	34,925
Segment liabilities	610,785	97,156	559,553	584,371	287,984	2,519,830	4,659,679
Additions to non-current assets (other than financial instruments and deferred income tax assets)	302,014	67,965	54,801	1,419,503	11,970	144,207	2,000,460



## 2. Segment information (Continued)

- (ii) For the year ended 31 December 2016, the Group's business was primarily carried out in the PRC, thus, geographical segment information on operational performance has not been prepared. The table of segment assets/liabilities by region is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
<b>Segment assets</b>		
- PRC	13,289,257	6,799,596
- Hong Kong	26,867	21,384
- Thailand	550,238	505,632
- Indonesia	316,958	N/A
Total segment assets	14,183,320	7,326,612
- Unallocated	5,875,054	2,275,679
Total assets	<u>20,058,374</u>	<u>9,602,291</u>
<b>Segment liabilities</b>		
- PRC	3,819,953	1,918,481
- Hong Kong	124	115
- Thailand	206,702	221,253
- Indonesia	76,465	N/A
Total segment liabilities	4,103,244	2,139,849
- Unallocated	8,708,671	2,519,830
Total liabilities	<u>12,811,915</u>	<u>4,659,679</u>

3. **Other income**

	<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income		
- Bank deposits and others	11,038	10,325
- Other receivables from third parties	7,502	10,318
- Other receivables from related parties	5,633	4,552
Rental income	3,356	3,680
Government grants	78,979	56,625
Value-Added Tax refunds	49,220	11,940
Miscellaneous income	4,661	112
	<u>160,389</u>	<u>97,552</u>

4. **Finance costs — net**

	<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income		
- Net exchange gains on financing activities	<u>(12,674)</u>	<u>(25,553)</u>
Finance expenses		
- Borrowing costs	260,525	92,622
Less: amounts capitalised on qualifying assets	<u>(31,759)</u>	<u>(27,785)</u>
	228,766	64,837
- Unwinding of provision	4,050	1,912
	<u>232,816</u>	<u>66,749</u>
	<u>220,142</u>	<u>41,196</u>

5. **Income tax expenses**

	<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
- PRC corporate income tax	160,054	54,236
Deferred income tax	<u>(57,586)</u>	<u>11,190</u>
	<u>102,468</u>	<u>65,426</u>

(a) PRC corporate income tax

Certain subsidiaries in certain industries operating in the western region of Mainland China can enjoy a preferential corporate income tax rate of 15%, provided their revenues generated from main operating activities accounted for more than 70% of their total revenues of the period.

Certain subsidiaries operating wastewater and solid waste treatment projects in Mainland China are eligible for a tax holiday of three-year full exemption followed by three-year half exemption of corporate income tax commencing from their first year generating operating revenue.

Except for preferential treatments available to certain subsidiaries as mentioned above, other subsidiaries within the Group in the PRC are subject to corporate income tax at the statutory rate of 25% (2015: same).

(b) Thailand corporate income tax

The subsidiary operating solid waste treatment project in Thailand is eligible for an eight-year tax holiday of full exemption from 2013 to 2020.

(c) Hong Kong profits tax

The applicable Hong Kong profits tax rate is 16.5% for the year ended 31 December 2016 (2015: same).

No provision for Hong Kong profits tax was made as the Group did not have any assessable profit in Hong Kong for the year ended 31 December 2016 (2015: same).

(d) Indonesia corporate income tax

The subsidiary operating solid waste treatment project in Indonesia is subject to corporate income tax at the statutory rate of 25% (2015: N/A).

No provision for Indonesia corporate income tax was made as the Group did not have any assessable profit in Indonesia for the year ended 31 December 2016 (2015: N/A).

## 6. Earnings per share

### (a) Basic

The basic earnings per share is calculated by dividing the profit attributable to the shareholders of the Company by the weighted average number of ordinary shares issued during the years ended 31 December 2016 and 2015.

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit attributable to the ordinary shareholders of the Company (RMB'000)	388,093	285,853
Weighted average number of ordinary shares in issue (thousands)	<u>1,193,213</u>	<u>1,059,181</u>
Basic earnings per share (RMB per share)	<u>0.325</u>	<u>0.270</u>

### (b) Diluted

Diluted earnings per share is the same as basic earnings per share as there were no potential diluted ordinary shares outstanding as at 31 December 2016 and 2015.

## 7. Dividends

At the board of directors meeting held on 30 March 2017, the directors of the Company proposed a final dividend for the year ended 31 December 2016 of RMB0.1 per ordinary share amounting to approximately RMB119,321,000 (2015: RMB0.1 per ordinary share, amounting to approximately RMB119,321,000) out of retained earnings of the Company. These proposed dividends have not been reflected as dividends payable in these consolidated financial statements for the year ended 31 December 2016 but will be reflected as dividends distribution for the year ending 31 December 2017.

The 2015 dividends were paid on 28 July 2016.

## 8. Receivables under service concession arrangements

The following is the summarised information of the financial asset component (receivables under service concession arrangements) with respect to the Group's service concession arrangements:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Receivables under service concession arrangements	2,891,228	1,953,279
Portion classified as current assets	<u>(31,082)</u>	<u>(11,540)</u>
Non-current portion	<u>2,860,146</u>	<u>1,941,739</u>

9. Trade and other receivables and prepayments

	<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables		
- Related parties	1,024,685	285,098
- Local governments	367,560	239,831
- Third parties	469,629	327,831
Less: provision for impairment	<u>(34,430)</u>	<u>(12,906)</u>
	<u>1,827,444</u>	<u>839,854</u>
Other receivables due from:		
- Joint venture	482,378	—
- Related parties	6,403	6,111
- Third parties	543,081	266,646
Less: provision for impairment	<u>(6,877)</u>	<u>(10,825)</u>
	<u>1,024,985</u>	<u>261,932</u>
Total trade and other receivables	2,852,429	1,101,786
Less: non-current portion of other receivables	<u>(128,605)</u>	<u>(57,410)</u>
Current portion of trade and other receivables	<u>2,723,824</u>	<u>1,044,376</u>
Prepayments		
- Related parties	25,064	108,778
- Third parties	1,338,582	759,759
	<u>1,363,646</u>	<u>868,537</u>
Less: non-current portion of prepayments	<u>(1,230,108)</u>	<u>(715,826)</u>
Current portion of prepayments	<u>133,538</u>	<u>152,711</u>

The carrying amount of trade and other receivables, other than prepayments, approximate their fair values and are mainly denominated in RMB.

(a) *Trade receivables*

In general, the Group grants credit periods of 90 to 180 days to its customers. Ageing analysis of gross trade receivables (including amounts due from related parties of trading in nature) at the respective balance sheet dates, based on the invoice dates or contractual terms, is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within one year	1,502,558	662,136
One to two years	158,404	107,948
Two to three years	130,108	50,621
Over three years	<u>70,804</u>	<u>32,055</u>
	<u>1,861,874</u>	<u>852,760</u>

10. **Borrowings**

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
<b>Non-current</b>		
Long-term bank borrowings		
- Secured	1,727,559	700,000
- Unsecured	<u>1,787,069</u>	<u>531,433</u>
	3,514,628	1,231,433
Corporate bonds and other borrowings		
- Unsecured	<u>2,174,926</u>	<u>794,527</u>
	<u>5,689,554</u>	<u>2,025,960</u>
<b>Current</b>		
Short-term bank borrowings		
- Secured	—	38,860
- Unsecured	1,941,205	919,799
Current portion of long-term bank borrowings		
- Secured	102,280	74,500
- Unsecured	108,073	5,196
Current portion of corporate bonds and other borrowings		
- Unsecured	<u>457,367</u>	<u>—</u>
	<u>2,608,925</u>	<u>1,038,355</u>
Total	<u>8,298,479</u>	<u>3,064,315</u>

## 11. Trade and other payables

	<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables:		
- Related parties	531,674	129,638
- Third parties	1,183,181	568,567
Other payables:		
- Related parties	210,553	15,037
- Third parties	729,578	288,641
Advances from customers	61,328	15,243
Staff welfare benefit payable	31,312	25,869
Other taxes payable	159,941	85,860
Less: non-current portion	<u>(49,055)</u>	<u>(54,514)</u>
Current portion	<u><u>2,858,512</u></u>	<u><u>1,074,341</u></u>

- (a) At 31 December 2016 and 2015, the ageing analysis of the trade payables based on invoice date is as follows:

	<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	1,238,674	396,269
One to two years	266,666	227,226
Two to three years	142,570	63,523
Over three years	<u>66,945</u>	<u>11,187</u>
	<u><u>1,714,855</u></u>	<u><u>698,205</u></u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY OVERVIEW

Following the smooth implementation of the “12th Five-Year Plan”, the newly revised Environmental Protection Law of China (《中華人民共和國環境保護法》) has achieved remarkable results. As the requirements for environmental governance have been tightened and the enterprises are now subject to a more stringent regulatory environment, the consequential impact on the needs for better environmental governance is positive and significant. All major environmental management systems and important regulatory measures under the relevant law have been effectively executed and complied with.

2016 marks the beginning for the “13th Five-Year Plan”. The “13th Five-Year Plan” of the Chinese government has called for the comprehensive improvement of eco-environmental quality as one of its main goals and overall philosophy. The Chinese government has expanded the overall layout of the development strategy from the “four-in-one” of economic development, political development, cultural development and social development into the “five-in-one” with the inclusion of the development of ecological civilization for the first time. Centering around this new objective, overall planning and deployment have been carried out from different aspects of comprehensive environmental management, ecological security mechanism and green environmental protection industry development. On the one hand, the strengthening support to environmental protection industry by way of favourable government policies demonstrates that China is determined to continue tightening pollution control and enhancing awareness of improvement of the environment, and on the other hand, it also provides new and further opportunities and a broader platform for the long-term and sustainable development of the environmental protection industry.

During the Reporting Period, the environment protection industry in China continued to develop favorably under the positive economic outlook of China with the following major changes: (1) nowadays, the implementation of environmental protection projects places more emphasis on its goal of improving environmental quality than on the production capacity and paramount importance is given to the improvement of environmental corporate governance, whether in terms of the government’s planning or the monitoring system; (2) the investment in environment protection industry shifts from focusing on the quantity of the outputs to the quality of the outputs and from the demands of the industry to the changes in the supply and demand of the industry; and (3) the robust development of environment protection industry continuously drives the growth of segment market, such as black and odorous water treatment, sponge city construction and development, soil remediation



technologies, carbon trading, which have shown enormous business potential. It is expected that the environmental protection industry will enter into a new phase of digital upgrade with the introduction of new concepts, such as smart environmental technology and digital environmental protection.

Driven by state policies, it is expected that huge market opportunities and potential will be brought for the future water supply services and solid waste treatment industries. Water supply, wastewater treatment and solid waste treatment industries will benefit from the rapidly accelerating urbanization in China and the policy support of the Chinese government for the overall environmental protection industry. The Board expects that the level of development and scale and growth of the industries will be further expanded and investors in the capital markets will also gradually pay more attention to the environmental protection industry.

## **DEVELOPMENT STRATEGIES AND PROSPECT**

As the Chinese government has introduced a series of policies for environmental protection for its “13th Five-Year” plan, laws and regulations relating to environmental protection in China are becoming increasingly stringent. The environmental protection industry is expected to become one of the new yet important industries driving economic development under the “new normal” era of China. In 2017, the Group will continue to adhere to its business strategy of becoming a leading municipal environmental protection integrated services provider in China, with an aim to creating environmentally-friendly cities across China. Closely monitoring and aligning with China’s national strategies and industry trends, the Group will actively develop and adjust its strategic business plans and investment plans, and at the same time continue to enhance its operational, technological and project management standards to ensure that Group will maintain sustainable development in the rapidly changing market environment.

Looking ahead, the Group will embark on “technological leadership” and promote innovative development within the Group. The Group plans to carry out specialized operation and centralized management for projects of its solid waste segment and invest a substantial amount of resources in the research and development of technologies relating to solid waste treatment, such as sludge carbonization and waste gasification, with a view to reinforcing its core technologies and equipment manufacturing, which the Board expects might also serve as a new income stream for the Group to enhance its market competitiveness and profitability. Meanwhile, the Group plans to fully apply photovoltaic power generation and precision aeration technology to further reduce energy consumption and operating cost and improve investment returns for the Group.

In terms of financing, the Group will continue to actively seek external financing both domestically and overseas in 2017. Domestically, the Group plans to diversify and expand its capital sources through the issuances of various financial products, such as asset-backed securities (ABS) and fixed asset loans, in order to implement the Group's construction and production plans and expand the Group's production scale, and thereby creating a virtuous business cycle between financing and development. As for overseas financing, the Group plans to utilize Yunnan Water (Hong Kong) Company Limited (“**Yunnan Water (HK)**”), a wholly-owned subsidiary of the Company, as its main financing platform by way of a combination of various means, such as issuance of debt securities in the offshore bond market, bank loans, etc., in order to support the Group's investment projects in the overseas market.

To achieve sustainable development, the development strategy of the Group will continue to focus on its business operation in Yunnan Province, and at the same time the Group will continue to seek investment opportunities to expand its business to other favourable regions of China, particularly in the southeastern coastal areas, northern China, northwest and southwest regions. The Group will also closely monitor certain overseas emerging markets such as Southeast Asia, Australia and other overseas countries. The Group will capture opportunities in the environmental protection industry and combine its practical experience in the PPP model to acquire suitable projects which are complementary to its existing business in order to further increase its market share. The Group will continue to enhance its operational, technological and project management standards to further improve operational efficiency.

## **BUSINESS REVIEW**

The Group is one of the leading integrated service providers in the municipal wastewater treatment and water supply industries in China. The Group mainly adopts the BOT, BOO, TOT, TOO, BT, EPC and O&M project models to provide customized and integrated turnkey solutions for water supply, wastewater treatment and solid waste treatment as well as system integration services of core technologies to customers. The Group's businesses are carried out in China and the Southeast Asian countries, the Group's principal businesses comprise five major segments, namely, wastewater treatment, water supply, solid waste treatment, construction and sales of equipment, and others.

As at 31 December 2016, the Group's relevant water projects had the total daily treatment capacity of approximately 2,634,000 tonnes, representing an increase of approximately 39% as compared to the total daily treatment capacity of 1,895,000

tonnes as at 31 December 2015. As at 31 December 2016, the Group's relevant solid waste treatment projects had the total annual solid waste treatment capacity of approximately 1,350,000 tonnes, representing an increase of approximately 92% as compared to the total annual capacity of 703,000 tonnes as at 31 December 2015.

### **Wastewater Treatment Projects**

As at 31 December 2016, the Group had a total of 67 concession wastewater treatment projects under construction and in operation, including 5 BOO projects, 48 BOT projects, 2 TOO projects and 12 TOT projects, with total daily wastewater treatment capacity of approximately 1,379,000 tonnes, representing an addition of 10 BOT projects and 5 TOT projects year-on-year, and an increase in total daily wastewater treatment capacity of approximately 355,000 tonnes compared with the year ended 31 December 2015, representing a growth rate of approximately 34.7%.

As at 31 December 2016, concession projects which commenced commercial operation had a total daily wastewater treatment capacity of approximately 1,124,000 tonnes, representing an addition of 2 BOO projects, 8 BOT projects and 4 TOT projects year-on-year which commenced commercial operation, and an increase in total daily wastewater treatment capacity of approximately 355,000 tonnes compared with the year ended 31 December 2015. During the Reporting Period, the Group's effective wastewater treatment utilization rate was approximately 71.7%, and the average unit charge of wastewater treatment was approximately RMB1.17 per tonne.

As at 31 December 2016, 9 concession projects had not commenced commercial operation with a total daily wastewater treatment capacity of approximately 255,000 tonnes, representing an addition of 2 BOT projects and 1 TOT project year-on-year and an increase in total daily wastewater treatment capacity of approximately 85,000 tonnes compared with 31 December 2015. During the Reporting Period, 2 BOO projects had commenced commercial operation with a total daily capacity of 85,000 tonnes.

### **Water Supply Projects**

As at 31 December 2016, the Group had a total of 31 concession water supply projects under construction or in operation, including 14 BOO projects, 9 BOT projects and 8 TOT projects, with total daily capacity of approximately 1,016,000 tonnes, representing an addition of 2 BOT projects and 6 TOT projects year-on-year, and an increase in total daily capacity of approximately 370,000 tonnes compared with the year ended 31 December 2015, representing a growth rate of approximately 57.3%.

As at 31 December 2016, concession projects which commenced commercial operation had a total daily capacity of approximately 675,000 tonnes, representing an addition of 1 BOO project and 6 TOT projects which commenced commercial operation year-on-year and an increase in total daily capacity of approximately 310,000 tonnes compared with the year ended 31 December 2015. During the Reporting Period, the Group's effective water supply utilization rate was approximately 70.1%, and the average unit charge of water supply was approximately RMB2.56 per tonne.

As at 31 December 2016, 11 concession projects had not commenced commercial operation with a total daily capacity of approximately 341,000 tonnes, representing an addition of 2 BOT projects year-on-year and an increase in total daily capacity of approximately 100,000 tonnes. During the Reporting Period, 1 BOO project had commenced commercial operation with a total daily capacity of 40,000 tonnes.

### **Solid Waste Treatment Projects**

As at 31 December 2016, the Group had 7 solid waste treatment projects with a total annual treatment capacity of 985,000 tonnes, of which 6 of them with an annual treatment capacity of 729,000 tonnes had commenced commercial operation and 1 of them with an annual treatment capacity of 256,000 tonnes was pending for operation. As compared to 31 December 2015, 3 additional solid waste treatment projects commenced operation and the total annual treatment capacity increased by 428,000 tonnes. During the Reporting Period, the Group's effective solid waste treatment utilization rate was approximately 89.1%.

### **Construction and Sales of Equipment**

The Group's construction and sales of equipment segment comprises BT projects, EPC projects and sales of equipment. As at 31 December 2016, the Group had a total of 11 BT projects, which were either under construction and/or completed, among which income of 9 BT projects were recognised during the Reporting Period, representing an addition of 2 BT projects under construction as compared with 31 December 2015.

During the Reporting Period, the Group had a total of 7 EPC projects, representing an addition of 2 EPC projects as compared with 31 December 2015.

The Group engages in the production, sales and installation of equipment necessary for wastewater treatment, water supply and solid waste treatment facilities. The major category of water equipment in the Group's production is membrane products. All of the membrane products are produced by the own plant of the Group.

## **Others**

During the Reporting Period, the Group also undertook O&M projects for wastewater treatment, water supply and solid waste treatment facilities owned by third parties, as well as provision of technical and consultancy services in relation to environmental protection. As at 31 December 2016, the Group had 27 O&M projects, including 2 solid waste treatment projects with annual treatment capacity of approximately 365,000 tonnes, 1 water supply project with daily capacity of approximately 5,000 tonnes and 24 wastewater treatment projects of daily wastewater treatment capacity of approximately 234,000 tonnes, representing an addition of 1 solid waste treatment O&M project, and an increase in the total daily treatment capacity of approximately 14,000 tonnes as compared with 31 December 2015.

## **FINANCIAL REVIEW**

### **Results of Operation**

During the Reporting Period, the Group recorded revenue of approximately RMB2,865.9 million, representing an increase of approximately 83.9% compared with the year ended 31 December 2015. During the Reporting Period, the Group realized a net profit of approximately RMB414.3 million, representing an increase of approximately 30.5% compared with the year ended 31 December 2015. Profit attributable to the ordinary shareholders of the Company was approximately RMB388.1 million, representing an increase of approximately 35.7% as compared with 31 December 2015. Earnings per share for the year ended 31 December 2016 was approximately RMB0.325.

### **Revenue**

Revenue of the Group increased from approximately RMB1,558.4 million for the year ended 31 December 2015 to approximately RMB2,865.9 million for the Reporting Period, representing an increase of approximately 83.9%.

In respect of the business segments of the Group, revenue from wastewater treatment increased by approximately 49.6% from approximately RMB420.0 million for the year ended 31 December 2015 to approximately RMB628.4 million for the Reporting Period. Revenue from water supply increased by approximately 40.7% from approximately RMB454.6 million for the year ended 31 December 2015 to approximately RMB639.4 million for the Reporting Period. Revenue from solid waste treatment tremendously increased from RMB8.2 million for the year ended 31 December 2015 to approximately RMB425.3 million for the Reporting Period. Revenue from construction and sales of equipment increased by approximately 85.9% from approximately RMB597.0 million for the year ended 31 December 2015 to

approximately RMB1,109.6 million for the Reporting Period. Revenue from other business slightly decreased by approximately 19.6% from approximately RMB78.6 million for the year ended 31 December 2015 to approximately RMB63.2 million for the Reporting Period.

The increase in revenue from the wastewater treatment segment was mainly attributable to (i) the increase in the unit price of wastewater treatment charged by certain wastewater treatment plants; and (ii) the increase in construction revenue and finance revenue generated by certain wastewater treatment projects under construction.

The increase in revenue from the water supply segment was mainly attributable to (i) an increase in construction revenue generated from certain water supply projects, which were previously under construction; and (ii) the BOT water supply projects acquired in 2016 which realized operating and construction revenue during the Reporting Period.

The increase in revenue from the solid waste treatment segment was mainly attributable to (i) certain solid waste treatment projects under commercial operation acquired at the end of 2015 which realized a full-year revenue during the Reporting Period; (ii) certain solid waste treatment projects under commercial operation newly acquired in 2016; and (iii) the construction revenue generated by solid waste treatment projects under construction.

The increase in revenue from the construction and sales of equipment segment was mainly attributable to (i) business expansion of EPC and sales of equipment projects of wastewater treatment, water supply watershed management and solid waste treatment industries; and (ii) the construction and finance revenue of 10 BT projects under construction including those newly acquired during the Reporting Period.

### **Cost of Sales**

Cost of sales of the Group for the Reporting Period was approximately RMB1,986.4 million, representing an increase of approximately 89.0% as compared with approximately RMB1,050.8 million for the year ended 31 December 2015. The increase was primarily due to (i) an increase in construction costs of projects under continuous construction; (ii) the acquisitions of certain operating projects in solid waste treatment and water supply industries in the Reporting Period, resulting in an increase in operating costs; (iii) certain projects acquired at the end of 2015 achieved full-year operation during 2016; and (iv) an increase in scale of EPC and sales of equipment.

## **Gross Profit Margin**

For the Reporting Period, gross profit margin of the Group was approximately 30.7%, representing a slight decrease as compared with approximately 32.6% for the year ended 31 December 2015. The decrease was primarily due to (i) the weighted average operating margin of the newly acquired solid waste treatment industry is slightly behind the waste water treatment and the construction and sales of equipment segments due to a relatively high depreciation and amortization cost; and (ii) certain water supply projects which newly operated or acquired recorded a lower gross profit margin due to a lower initial unit price.

## **Other Income**

For the Reporting Period, the Group recorded other income of approximately RMB160.4 million in aggregate as compared with approximately RMB97.6 million for the year ended 31 December 2015, representing an increase of approximately 64.3%. The increase in other income during the Reporting Period was mainly attributable to the refund of value-added tax (“VAT”). Pursuant to the preferential VAT policies issued by the PRC State Administration of Taxation, the wastewater and solid waste treatment businesses of the Group were eligible for full exemption of VAT prior to 1 July 2015. However, effective from 1 July 2015, the VAT policies were changed and the full exemption of VAT was superseded by 70% refund of the net VAT paid.

## **Selling Expenses**

For the Reporting Period, selling expenses of the Group was approximately RMB22.8 million, representing an increase of approximately 32.6% from approximately RMB17.2 million for the year ended 31 December 2015. The increase was due to the increasing scale of EPC and sale of equipment and the increase in selling expenses from newly acquired projects in 2016.

## **Administrative Expenses**

Administrative expenses of the Group increased by RMB149.8 million from approximately RMB181.2 million for the year ended 31 December 2015 to approximately RMB331.0 million for the Reporting Period, representing an increase of approximately 82.7%. Increase in administrative expenses was primarily due to (i) the expansion of the Group’s business with acquisition of a number of subsidiaries, which resulted in an increase in expenses such as employee benefit expenses and legal and professional fees for the acquisitions; (ii) the solid waste projects acquired at the end of 2015 were under a full-year operation in 2016.

## **Finance Costs — net**

Net finance costs increased by RMB178.9 million from approximately RMB41.2 million for the year ended 31 December 2015 to approximately RMB220.1 million for the Reporting Period, representing an increase of almost four times that for the previous year. The increase in net finance costs was primarily due to a number of additional bank borrowings and the issuance of other debt securities to support the Company's business acquisition.

The average interest rate on borrowings of the Group for the Reporting Period was approximately 4.70% per annum, representing a decrease compared with approximately 6.36% per annum for the year ended 31 December 2015 due to the diversified source of financing channel in the Reporting Period.

## **Share of profit of investments accounted for using the equity method**

Share of profit of investments accounted for using the equity method increased by approximately RMB37.5 million from approximately RMB4.9 million for the year ended 31 December 2015 to approximately RMB42.4 million during the Reporting Period. The increase was mainly due to the combined effect of the recognition of the negative goodwill arising from acquisition of the joint venture, Galaxy NewSpring Pte. Ltd., and share of its financial results from its acquisition date to 31 December 2016.

## **Profit Before Income Tax**

As a result of the above factors, the Group recorded profit before income tax of approximately RMB516.7 million for the year ended 31 December 2016, representing an increase of approximately 34.9% as compared with approximately RMB382.9 million recorded for the year ended 31 December 2015.

## **Income Tax Expenses**

Income tax expenses increased by RMB37.1 million from approximately RMB65.4 million for the year ended 31 December 2015 to approximately RMB102.5 million for the Reporting Period, representing an increase of approximately 56.7%. The weighted average effective tax rate was approximately 19.8% (2015: 17.1%). The increase is caused by a change in the profitability of the Group's subsidiaries in respective countries and regions applying different corporate income tax rates.



## **Profit and Net Profit Margin for the Reporting Period**

As a result of the foregoing, profit for the Reporting Period increased by RMB96.9 million from approximately RMB317.4 million for the year ended 31 December 2015 to approximately RMB414.3 million for the Reporting Period, representing an increase of approximately 30.5%. Net profit margin decreased from approximately 20.4% for the year ended 31 December 2015 to approximately 14.5% for the Reporting Period.

## **Receivables under Service Concession Arrangements**

The Group's receivables under service concession arrangements increased by RMB937.9 million from approximately RMB1,953.3 million as at 31 December 2015 to approximately RMB2,891.2 million as at 31 December 2016, representing an increase of approximately 48.0%. Such increase was primarily due to (i) the wastewater concession projects newly acquired in 2016; and (ii) the additional investments on BOT and TOT projects under construction by the Group which led to an increase in the outstanding receivables under the service concession arrangements.

## **Trade and Other Receivables and Prepayments**

The Group's trade and other receivables and prepayments increased by RMB2,245.8 million from approximately RMB1,970.3 million as at 31 December 2015 to approximately RMB4,216.1 million as at 31 December 2016, representing an increase of approximately 114.0%. Such increase was primarily due to (i) an increase in trade and other receivables and prepayments from the projects acquired by the Group during the Reporting Period; (ii) an expansion of the sales scale of EPC and equipment; and (iii) an increase in deposits for proposed acquisition projects.

## **Cash and Cash Equivalents**

The Group's total cash balance of increased by RMB2,457.8 million from approximately RMB1,672.1 million as at 31 December 2015 to approximately RMB4,129.9 million as at 31 December 2016 representing an increase of approximately 147.0%. Such increase was primarily in line with the larger scale of debt financing.

## **Trade and Other Payables**

The Group's trade and other payables increased by RMB1,778.7 million from approximately RMB1,128.9 million as at 31 December 2015 to approximately RMB2,907.6 million as at 31 December 2016, representing an increase of

approximately 157.6%. Such increase was primarily due to (i) the increase in trade payables for the newly acquired projects; (ii) an increase in purchasing cost for sales of equipment and the construction investment in BOT and TOT projects; and (iii) the remaining consideration to be paid for the newly acquired projects.

### **Borrowings**

As at 31 December 2016, the Group had borrowings of approximately RMB8,298.5 million (31 December 2015: approximately RMB3,064.3 million).

As at 31 December 2016, the Group had unsecured borrowings of approximately RMB6,468.7 million (31 December 2015: approximately RMB2,250.9 million), and secured borrowings of approximately RMB1,829.8 million (31 December 2015: approximately RMB813.4 million).

### **Perpetual capital instruments**

On 29 December 2016, the Group issued unsecured perpetual capital instruments with aggregated net proceeds of RMB2,000 million to a financial institution in the PRC (2015: nil). The perpetual capital instruments have no maturity, and the payments of distribution can be deferred at the discretion of the Company. There was no profit attributable to the holders of perpetual capital instruments for the year ended 31 December 2016.

### **Pledge of Assets**

As at 31 December 2016, the Group had borrowings of approximately RMB688.5 million which were secured by the Group's land use rights, shares of a subsidiary and a joint venture, and land use rights of non-controlling interests and external parties (31 December 2015: borrowings of approximately RMB153.9 million were secured by the Group's land use rights). As at 31 December 2016, the Group had borrowings of approximately RMB1,141.3 million (31 December 2015: approximately RMB659.5 million) which were secured by right of charges from concession projects of tap water supply and wastewater treatment and BT projects.

### **Capital Commitments**

The Group's capital commitments increased by RMB2,872.4 million from approximately RMB1,810.8 million as at 31 December 2015 to approximately RMB4,683.2 million as at 31 December 2016, representing an increase of approximately 158.6%. Such increase was primarily due to business expansion and the Group's increased investments in properties, plant and equipment, BT projects and concession projects and business combinations.

## **Gearing Ratio**

The Group's gearing ratio (calculated as net debt divided by total capital) increased from approximately 21.98% as at 31 December 2015 to approximately 36.52% as at 31 December 2016. The increase in gearing ratio was mainly due to the increased scale of debt financing during the Reporting Period.

## **The Initial Public Offering (the "IPO") of the Company and the Use of Proceeds from the IPO**

The H shares of the Company were listed on the Stock Exchange on 27 May 2015. After completion of the IPO, the total number of the Company's H shares was 363,713,900 (including the H shares converted from domestic shares on a one-for-one basis). The proceeds from the IPO after deducting the relevant listing expenses were approximately HK\$1,739 million. The utilization of which is in line with the information as disclosed in the prospectus of the Company dated 13 May 2015. As at 31 December 2016, the Group has utilized proceeds of approximately HK\$1,715 million, and unutilized proceeds amounted to approximately HK\$24 million.

## **Employees and Remuneration Policy**

As at 31 December 2016, the Group employed 3,666 employees (31 December 2015: 2,005). For the year ended 31 December 2016, staff cost was approximately RMB264.3 million (for the year ended 31 December 2015: RMB148.3 million). The Group will strive to ensure that the remuneration level of employees is in line with industry practices and prevailing market conditions, and remunerations of employees will be determined based on their performance. The remuneration package provided to employees also includes basic and floating salaries, discretionary bonus and staff benefits. The Group also provides external and internal training programs for its employees.

The Group did not experience any significant labour disputes causing any material impact on its normal business operations.

## **Foreign Exchange Risk**

The Group principally operates in the PRC with most of the transactions being settled in RMB, which is the functional currency of most of the group entities. The Group also has certain subsidiaries in foreign operations. Foreign exchange risk arises from the recognised assets and liabilities and net investments in foreign operations. Currency exposure arising from the net assets of the Group's foreign operations is

managed primarily through operating and financing activities denominated in the relevant foreign currencies. The group entities are exposed to foreign exchange risk of foreign currencies other than their functional currencies, primarily with respect to the US dollars (“US\$”), Euro (“EUR”), and Hong Kong dollars (“HKD”) (together “Non-functional Currencies”).

As at 31 December 2016 and 2015, the Group had more financial liabilities than financial assets denominated in Non-functional Currencies of the group entities. Fluctuations in exchange rates between the functional currencies of respective group entities and Non-functional Currencies in which the group entities conducts business may affect the Groups financial position and results of operations. The Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimizing its net foreign currency position.

### **Contingent Liabilities**

As at 31 December 2016, the Group did not have any significant contingent liabilities.

### **Final Dividend**

The Board has resolved to declare a final dividend of RMB0.1 per share (tax included) for the year ended 31 December 2016. The proposed distribution of final dividend by the Company is subject to approval at the forthcoming annual general meeting. Upon approval, the final dividend will be paid on or before 28 July 2017.

## **SIGNIFICANT INVESTMENTS AND ACQUISITIONS**

- On 9 December 2016, the Company entered into a joint venture agreement with Haining Municipal Water Investment Group Co., Limited\* (海寧市水務投資集團有限公司) in relation to the establishment of Zhejiang Haiyun Environmental Protection Company Limited\* (浙江海雲環保有限公司) as a joint venture company in Haining, Zhejiang Province, the PRC, with a total investment amount of RMB1,100,000,000.
- On 1 November 2016, Yunnan Water (HK) entered into a joint venture agreement with Penglai Urban Construction Investment Group Co., Ltd.\* (蓬萊市城市建設投資集團有限公司) in relation to the establishment of Shandong Yunshui Xianjing Environmental Protection Investment Company, Ltd.\* (山東雲水仙境環保投資有限公司) as a joint venture company in Penglai, Shandong Province, the PRC, with a total investment amount of US\$100,000,000.

- On 24 October 2016, the Company (as purchaser) entered into an equity transfer agreement with Yunnan Zhengxiao Cables Co., Ltd.\* (雲南正曉電纜有限公司) (as vendor) in relation to the acquisition of 40% equity interest of Yunnan Zhengxiao Environmental Protection Investment Co., Ltd.\* (雲南正曉環保投資有限公司) at a consideration of RMB220,000,000.
- On 28 July 2016, Yunnan Water (HK) (as purchaser) and the Company (as purchaser’s guarantor) entered into a sale and purchase agreement with Mitsui & Co., Ltd in relation to the acquisition of 50% interest in Galaxy NewSpring Pte. Ltd. at a consideration of US\$100,000,000. On 26 October 2016, Yunnan Water (HK) (as purchaser) and the Company (as purchaser’s guarantor) entered into a sale and purchase agreement with Hyflux Asset Management Pte. Ltd. (as vendor) and Hyflux Ltd. (as vendor’s guarantor) in relation to the acquisition of the remaining 50% interest in Galaxy NewSpring Pte. Ltd. at a consideration of US\$136,500,000.
- On 21 April 2016, the Company (as purchaser) entered into an equity transfer agreement with Heilongjiang Chenery Investment Group Company Limited\* (黑龍江辰能投資集團有限責任公司) and Heilongjiang Chenery Hit High-Tech Venture Capital Co., Ltd\* (黑龍江辰能哈工大高科技風險投資有限公司) (collectively, as vendors) in relation to the acquisition of 75.51% equity interest in Harbin Yun Shui Gong Da Environmental Technology Co., Ltd.\* (哈爾濱雲水工大環保科技股份有限公司) (formerly known as “Harbin Chenery & Hit Environmental Technology Co., Ltd.\* (哈爾濱辰能工大環保科技股份有限公司)”) and its subsidiaries at a consideration of RMB158,000,000. The acquisition was completed on 4 August 2016.
- On 11 January 2016, the Company (as purchaser) entered into an equity transfer agreement with Environmental Experts (China) Development & Investment Company Limited (專業環保(中國)投資開發有限公司) and Hong Kong Rich Investment Limited (香港年峰投資有限公司) (collectively, as vendors) in relation to the acquisition of 100% equity interest in Harbin Guo Huan Medical Solid Waste Harmless Centralized Disposal Center Co., Ltd.\* (哈爾濱國環醫療固體廢物無害化集中處置中心有限公司) at a consideration of RMB290,641,420. The acquisition was completed on 2 June 2016.
- On 21 December 2015, Yunnan Water (HK) (as purchaser) entered into an equity transfer agreement with Mr. Wang Zhi (as vendor), Future International Group Co., Ltd. (“**Future International**”) and Huize Water (Qingzhou) Company Limited\* (暉澤水務(青州)有限公司) in relation to the sale and purchase of 65% interest in Future International at a consideration of RMB292,500,000. The acquisition was completed on 8 January 2016.

For details of the above-mentioned significant investments and acquisitions, please refer to the announcements published by the Company on 9 December 2016, 1 November 2016, 24 October 2016, 28 July 2016, 26 October 2016, 21 April 2016, 11 January 2016 and 21 December 2015, respectively.

### **Subsequent Events:**

- On 30 November 2015, Yunnan Metropolitan Construction Investment Co., Ltd.\* (雲南省城市建設投資集團有限公司) (“YMCI”) has pledged the 100% equity interests (the “**Equity Pledge**”) in Yunnan Province Water Industry Investment Co., Ltd.\* (雲南省水務產業投資有限公司) in favour of a financial institution as security for a loan of YMCI. On 23 March 2017, the Company was informed that the Equity Pledge has been released.
- On 26 October 2016, Yunnan Water (HK) entered into an equity sale and purchase agreement with Hyflux Asset Management Pte. Ltd. and Hyflux Ltd. to acquire the remaining 50% equity interest in Galaxy NewSpring Pte. Ltd. at the consideration of US\$136,500,000. The acquisition was completed on 15 March 2017.
- On 25 January 2017, the Company and Yunnan Sidu Investment Management Co., Ltd.\*(雲南斯度投資管理有限公司) entered into a joint venture agreement in relation to the establishment of Yunnan Solid Waste Investment Co., Ltd.\* (雲南固廢投資有限公司) as a joint venture company in Yunnan Province, the PRC, with a total investment amount of RMB500,000,000.
- On 17 January 2017, the Shanghai Stock Exchange has officially announced that it has no objection to the Company’s application for the non-public issuance of the renewable corporate green bonds with maximum principal of RMB1,800,000,000 to qualified investors in the PRC.
- On 5 January 2017, the National Development and Reform Commission of the PRC has officially approved the public issuance of the green bond at nominal value of not exceeding RMB550,000,000 by the Company .

For details of the above-mentioned subsequent events, please refer to the announcements published by the Company on 23 March 2017, 15 March 2017, 25 January 2017, 17 January 2017 and 5 January 2017, respectively.

## **Environmental, Social and Corporate Governance**

The Group believes that effective environmental, social and corporate governance management policies are crucial to the sustainability of the Group's business. As such, the Group proactively enhances its understanding of the latest laws and regulations and the best practices both within and outside the PRC, which are relevant to the Group's business, as well as its management approach and management system. As a responsible corporation, the Group is also committed and dedicated to maintaining the highest environmental and social standards.

The Group has complied with all relevant laws and regulations in relation to its business, including but not limited to health and safety, workplace conditions, employment and the environment. The Group understands that a better future depends on everyone's participation and contribution. Towards that end, it has encouraged employees, customers, suppliers and other stakeholders to participate in environmental and social activities which benefit the community as a whole. The Group also maintains strong relationships with its employees, has enhanced cooperation with its suppliers and has provided high quality products and services to its customers so as to ensure sustainable development.

An environmental, social and governance (“**ESG**”) report is being prepared with reference to Appendix 27 Environmental, Social and Governance Reporting Guide to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). The report represents our wide commitment to sustainable development during the Reporting Period, and covers the major environmental and social policies of our Group and the achievements and performance of such policies.

The ESG report will be included in the 2016 annual report of the Company to be dispatched to the Company's shareholders in due course and published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company ([www.yunnanwater.cn](http://www.yunnanwater.cn)).

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

The Company is committed to maintaining a high standard of corporate governance with a view to safeguarding the interest of shareholders and enhancing corporate value. The Board believes that good corporate governance is one of the factors leading to the success of the Company and balancing the interests of shareholders, customers and employees.

At present, the Board has four professional committees including the Audit Committee, Nomination Committee, Remuneration Committee and Compliance Committee.

During the Reporting Period, the Company has complied with all code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the “**Corporate Governance Code**”) in Appendix 14 to the Listing Rules.

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

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

#### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS**

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors and supervisors of the Company (the “**Supervisors**”). The Group has made specific enquiries with all of its Directors and Supervisors, and all Directors and Supervisors have confirmed that they have fully complied with the required standard set out in the Model Code during the Reporting Period.

#### **AUDIT COMMITTEE**

The Audit Committee consists of four independent non-executive Directors, Mr. Kwok For Chi (as chairman), Mr. Hu Song, Mr. Ma Shihao and Mr. Ren Gangfeng. The principal responsibilities of the Audit Committee include reviewing and supervising the financial reporting process, risk management and internal control systems of the Company, including making recommendations on appointing or changing the external auditor and its terms of engagement; reviewing and monitoring external auditor’s independence and audit process objectively; monitor the integrity of the Company’s financial statements, annual report and accounts and half-year report; oversight of the Company’s financial reporting system, risk management and internal control system; other matters that the Board has authorized it to deal with. Terms of reference of the Audit Committee have been published on the website of the Company.

The Audit Committee has reviewed the audited consolidated financial statements of the Group for the Reporting Period. 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 of the Company.



## **NOMINATION COMMITTEE**

The Nomination Committee consists of one non-executive Director, Mr. Jiao Jun (as acting chairman), and two independent non-executive Directors, Mr. Hu Song and Mr. Ren Gangfeng. The principal responsibilities of the Nomination Committee include reviewing and monitoring the structure, size, composition and diversity of members of the Board in light of the Company's strategy; identifying suitably qualified individuals and making recommendations to the Board to be new Board members; reviewing and making recommendations to the Board on individuals nominated to be Directors by Shareholders to ensure that all nominations are fair and transparent; assessing the independence of independent non-executive Directors; reviewing and monitoring the implementation of diversity policy of Board members of the Company. Terms of reference of the Nomination Committee have been published on the website of the Company.

During the Reporting Period, the Nomination Committee has reviewed the appointment of new executive Director.

## **REMUNERATION COMMITTEE**

The Remuneration Committee consists of one executive Director, Mr. Yu Long, and two independent non-executive Directors, Mr. Hu Song (as chairman) and Mr. Ren Gangfeng. The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the policy and structure of remuneration for all Directors and senior management members and on the establishment of a formal and transparent procedure for developing remuneration policy; review and approval of the remuneration proposals from the management; making recommendations to the Board on the remuneration packages of individual executive Directors and senior management members; and to advise Shareholders with respect to the service contracts of Directors that require Shareholders' approval under the Listing Rules. Terms of reference of the Remuneration Committee have been published on the website of the Company.

## **COMPLIANCE COMMITTEE**

The Compliance Committee consists of one executive Director, Mr. Yu Long (as chairman), three independent non-executive Directors, Mr. Kwok For Chi, Mr. Hu Song and Mr. Ren Gangfeng and one Supervisor, Ms. Yang Chuanyun. The principal responsibilities of the Compliance Committee are to conduct independent investigation and make decisions on compliance matters with respect to our business operations by authorization from the Board. The Company has established the

Compliance Committee to ensure the acquisition projects and operations of the Group have complied with our internal control standards and the relevant PRC laws and regulations. Terms of reference of the Compliance Committee have been published on the website of the Company.

## **RISK MANAGEMENT AND INTERNAL CONTROL**

The Board is responsible for maintaining an adequate risk management and internal control system to safeguard the Shareholder's investments and the Company's assets, and reviewing the effectiveness of such system on an annual basis with the support of the Audit Committee.

The Board, through the Audit Committee, has reviewed the effectiveness of the internal audit system and the risk management and internal control system of the Company and its subsidiaries, including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and the adequacy of their training programmes and budget.

During the Reporting Period, the Board, through a review, considered that the risk management and internal control system of the Company and its subsidiaries was effective and adequate.

## **DIRECTORS' PARTICULARS**

The changes in Directors' particulars which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the publication of the annual report of the Company for the year ended 31 December 2015 are set out as follows:

Mr. Wen Jianping resigned as a non-executive Director with effect from 17 March 2016. For further details, please refer to the announcement published by the Company on 17 March 2016.

Mr. Dai Richeng was appointed as an executive Director with effect from 7 June 2016. For further details, please refer to the announcement published by the Company on 22 March 2016 and the circular published by the Company on 15 April 2016.

Mr. Xu Lei ("**Mr. Xu**") resigned as a non-executive Director, the chairman of the Board ("**Chairman**"), and chairman and member of the Nomination Committee with effect from 24 February 2017. Following the resignation of Mr. Xu, Mr. Jiao Jun ("**Mr. Jiao**"), a non-executive Director, has been elected as the acting Chairman and the acting chairman of the Nomination Committee with effect from 24 February 2017.

Mr. Jiao's position as the acting Chairman and the acting chairman of the Nomination Committee will remain until the appointment of the new Chairman and the new chairman of the Nomination Committee. For further details, please refer to the announcement published by the Company on 24 February 2017.

Save as disclosed above, after having made all reasonable enquiries, the Company is not aware of any other information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the Company's annual report for the year ended 31 December 2015.

## **PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This annual results announcement has been published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company ([www.yunnanwater.cn](http://www.yunnanwater.cn)). The 2016 annual report of the Company will be despatched to the Company's shareholders and published on the aforesaid websites in due course.

## **APPRECIATION**

The Board would like to take this opportunity to express its sincere gratitude to the Company's shareholders for their support and to the Group's staff for their hard work and contribution in 2016.

By order of the Board  
**Yunnan Water Investment Co., Limited\***  
**Jiao Jun**  
*Acting Chairman*

Kunming, the PRC  
30 March 2017

*As at the date of this announcement, the executive Directors are Mr. Yu Long, Mr. Liu Xujun, Mr. Huang Yunjian and Mr. Dai Richeng, the non-executive Directors are Mr. Jiao Jun (Acting Chairman), Mr. He Yuanping and Mr. Feng Zhuangzhi, and the independent non-executive Directors are Mr. Kwok For Chi, Mr. Hu Song, Mr. Ma Shihao, and Mr. Ren Gangfeng.*

\* *For identification purposes only*