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YUNNAN WATER

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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB2,422.9 million, representing an increase of approximately 46.2% over the corresponding period of last year.
- Gross profit was approximately RMB581.9 million, representing an increase of approximately 40.9% over the corresponding period of last year.
- Core business profit¹ was approximately RMB124.6 million, representing a significant increase over the corresponding period of last year.
- Profit attributable to ordinary shareholders of the Company was approximately RMB78.5 million, representing a decrease of approximately 14.5% over the corresponding period of last year.
- Basic earnings per share was approximately RMB0.066, representing a decrease of approximately 14.3% over the corresponding period of last year.
- The Board does not recommend any distribution of interim dividend for the six months ended 30 June 2018.

The board (the “**Board**”) of directors (the “**Directors**”) of Yunnan Water Investment Co., Limited* (the “**Company**”) is pleased to announce the unaudited interim consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2018 (the “**Reporting Period**”).

Note:

1. Core business profit represents profit for the period excluding fair value gains or losses on the remeasurement of investments accounted for using the equity method and one-off recovery of other receivables.

I. FINANCIAL INFORMATION OF THE GROUP

Interim condensed consolidated statement of profit or loss and other comprehensive income

	Note	Six months ended 30 June	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue	4	2,422,877	1,657,722
Cost of sales		<u>(1,841,011)</u>	<u>(1,244,602)</u>
Gross profit		581,866	413,120
Other income		51,715	155,024
Other gains — net		2,401	59,454
Selling expenses		(21,260)	(18,281)
Administrative expenses		<u>(177,196)</u>	<u>(202,537)</u>
Operating profit		437,526	406,780
Finance income	5	10,610	19,822
Finance costs	5	<u>(305,631)</u>	<u>(235,901)</u>
Finance costs — net		(295,021)	(216,079)
Share of profit/(loss) of investments accounted for using the equity method — net		<u>18,179</u>	<u>(4,379)</u>
Profit before income tax		160,684	186,322
Income tax expense	6	<u>(33,589)</u>	<u>(30,780)</u>
Profit for the period		127,095	155,542
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
— Currency translation differences		(49,817)	72,941
— Share of other comprehensive income of a joint venture accounted for using the equity method		<u>—</u>	<u>3,731</u>
		<u>(49,817)</u>	<u>76,672</u>
Total comprehensive income for the period — net of tax		<u>77,278</u>	<u>232,214</u>

		Six months ended 30 June	
		2018	2017
	<i>Note</i>	RMB'000	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Profit attributable to:			
— Ordinary shareholders of the Company		78,493	91,766
— Holders of perpetual capital instruments		41,195	42,638
— Non-controlling interests		7,407	21,138
		<u>127,095</u>	<u>155,542</u>
Total comprehensive income attributable to:			
— Ordinary shareholders of the Company		28,676	168,438
— Holders of perpetual capital instruments		41,195	42,638
— Non-controlling interests		7,407	21,138
		<u>77,278</u>	<u>232,214</u>
Earnings per share for profit attributable to ordinary shareholders of the Company			
<i>(expressed in RMB per share)</i>			
— Basic and diluted	7	<u>0.066</u>	<u>0.077</u>

Interim condensed consolidated balance sheet

		30 June 2018	31 December 2017
	<i>Note</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		2,465,705	2,379,444
Investment properties		26,364	26,692
Land use rights		188,239	189,751
Receivables under service concession arrangements	9	6,386,984	5,058,220
Amounts due from customers for contract works		—	260,694
Contract assets		377,929	—
Intangible assets		9,181,432	8,508,853
Investments accounted for using the equity method		647,308	623,028
Available-for-sale financial assets		—	4,675
Financial asset at fair value through other comprehensive income		4,675	—
Trade and other receivables	10	13,770	30,214
Prepayments	10	947,145	1,695,626
Deferred income tax assets		374,195	314,869
		<u>20,613,746</u>	<u>19,092,066</u>
Current assets			
Receivables under service concession arrangements	9	54,733	52,928
Inventories		60,862	45,630
Amounts due from customers for contract works		—	405,060
Contract assets		463,641	—
Trade and other receivables	10	5,459,400	4,350,247
Prepayments	10	440,684	128,899
Restricted cash		138,979	124,292
Cash and cash equivalents		2,012,618	2,896,927
		<u>8,630,917</u>	<u>8,003,983</u>
Total assets		<u><u>29,244,663</u></u>	<u><u>27,096,049</u></u>

		30 June 2018	31 December 2017
	<i>Note</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
EQUITY			
Equity attributable to ordinary shareholders of the Company			
Share capital		1,193,213	1,193,213
Other reserves		2,231,854	2,331,308
Retained earnings		935,419	1,012,044
		4,360,486	4,536,565
Perpetual capital instruments		1,200,000	1,200,000
Non-controlling interests		960,337	949,384
Total equity		6,520,823	6,685,949
LIABILITIES			
Non-current liabilities			
Borrowings	<i>12</i>	10,125,423	9,349,422
Trade and other payables	<i>11</i>	1,997,086	1,272,984
Deferred income		654,507	633,892
Deferred income tax liabilities		1,085,597	970,786
Provision		327,592	263,487
		14,190,205	12,490,571
Current liabilities			
Borrowings	<i>12</i>	4,774,031	4,438,574
Trade and other payables	<i>11</i>	3,468,242	3,255,709
Amounts due to customers for contract works		—	5,023
Contract liabilities		83,770	—
Current income tax liabilities		207,592	220,223
		8,533,635	7,919,529
Total liabilities		22,723,840	20,410,100
Total equity and liabilities		29,244,663	27,096,049

II. NOTES TO THE FINANCIAL INFORMATION

1. General information

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. As at 30 June 2018, the total registered capital of the Company was RMB1,193,213,000. The address of its registered office is migrated to Yunnan Water, 2089 Haiyuan Bei Road, Gaoxin District, Kunming, Yunnan Province, the PRC since 9 July 2018.

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.

This interim condensed consolidated financial information for the six months ended 30 June 2018 (the "Interim Financial Information") is presented in Renminbi ("RMB"), unless otherwise stated. This Interim Financial Information was approved for issue by the board of directors of the Company on 29 August 2018.

2. Basis of preparation and accounting policies

(a) Basis of preparation

This Interim Financial Information for the six months ended 30 June 2018 has been prepared in accordance with HKAS 34, "Interim Financial Reporting". The Interim Financial Information should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

(b) Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of new standards, amendments to standards and interpretations as set out below.

(i) New standards, amendments to standards and interpretations adopted by the Group

The following new standards, amendments to standards and interpretations are mandatory for the Group's financial year beginning 1 January 2018.

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers
HKAS 28 (Amendments)	Investments in associates and joint ventures
HKAS 40 (Amendments)	Transfers of investment property
HK (IFRIC) 22	Foreign currency transactions and advance consideration

The impact of the adoption of these new standards and the new accounting policies are disclosed in note 3 below. The amendments to standards and interpretations adopted by the Group did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

(ii) Impact of new standards, amendments to standards and interpretations issued but not yet applied by the entity

HKFRS 16	Leases ¹
HK(IFRIC) 23	Uncertainty over income tax treatments ¹
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture ²

1. Effective for annual periods beginning on 1 January 2019.

2. Effective date to be determined.

The impact of new standards, amendments to standards and interpretations that issued but not effective is still under assessment by the Group.

3. Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 “Financial instruments” (“**HKFRS 9**”) and HKFRS 15 “Revenue from contracts with customers” (“**HKFRS 15**”) on the Group’s financial information and the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

HKFRS 9 and HKFRS 15 were generally adopted by the Group by the modified retrospective approach without restating comparative information. As a result of the changes in the Group’s accounting policies certain reclassifications and adjustments are therefore not reflected in the balance statement as at 31 December 2017, but are recognised in the opening balance statement on 1 January 2018.

The following table show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Interim condensed consolidated balance sheet (extract)	31 December 2017			1 January 2018
	As originally presented <i>RMB'000</i>	HKFRS 9 <i>RMB'000</i>	HKFRS 15 <i>RMB'000</i>	Restated <i>RMB'000</i>
Non-current assets				
Financial assets at fair value through other comprehensive income	—	4,675	—	4,675
Available-for-sale financial assets	4,675	(4,675)	—	—
Contract assets	—	—	260,694	260,694
Amounts due from customers for contract works	260,694	—	(260,694)	—
Current assets				
Contract assets	—	—	405,060	405,060
Amounts due from customers for contract works	405,060	—	(405,060)	—
Total assets	<u>27,096,049</u>	<u>—</u>	<u>—</u>	<u>27,096,049</u>
Current liabilities				
Amounts due to customers for contract works	5,023	—	(5,023)	—
Trade and other payables – advances from customers	52,531	—	(52,531)	—
Contract liabilities	—	—	57,554	57,554
Total liabilities	<u>20,410,100</u>	<u>—</u>	<u>—</u>	<u>20,410,100</u>

4. 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; and
- (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.

Unallocated assets mainly represented cash and cash equivalents, restricted cash, certain prepayments and certain receivables 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 certain 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 for the six months ended 30 June 2018 and 2017 are as follows:

Six months ended 30 June 2018:

	Water treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Construction and sales of equipment <i>RMB'000</i>	Solid waste treatment <i>RMB'000</i>	Others <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Total segment revenue	1,268,966	507,992	545,880	300,012	43,639	—	2,666,489
Inter-segment revenue	—	—	(243,612)	—	—	—	(243,612)
Revenue from external customers	1,268,966	507,992	302,268	300,012	43,639	—	2,422,877
Timing of revenue recognition							
— At a point in time	—	247,604	95,584	—	—	—	343,188
— Over time	1,268,966	260,388	206,684	300,012	43,639	—	2,079,689
Gross profit	335,012	92,580	46,555	90,794	16,925	—	581,866
Other income							51,715
Other gains — net							2,401
Selling expenses							(21,260)
Administrative expenses							(177,196)
Finance income							10,610
Finance costs							(305,631)
Share of profit/(loss) of investments accounted for using the equity method							
— net	6,967	(4,715)	3,457	12,470	—	—	18,179
Profit before income tax							160,684
Income tax expense							(33,589)
Profit for the period							127,095
Depreciation and amortisation	(57,720)	(76,820)	(7,332)	(76,906)	(7,227)	(6,660)	(232,665)

Six months ended 30 June 2017:

	Wastewater treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Construction and sales of equipment <i>RMB'000</i>	Solid waste treatment <i>RMB'000</i>	Others <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Gross segment revenue	596,801	620,174	362,304	238,478	24,222	—	1,841,979
Inter-segment revenue	—	—	(184,257)	—	—	—	(184,257)
Revenue	596,801	620,174	178,047	238,478	24,222	—	1,657,722
Gross profit	219,569	65,799	27,802	96,370	3,580	—	413,120
Other income							155,024
Other gains — net							59,454
Selling expenses							(18,281)
Administrative expenses							(202,537)
Finance income							19,822
Finance costs							(235,901)
Share of profit/(loss) of investments accounted for using the equity method							
— net	9,178	(13,557)	—	—	—	—	(4,379)
Profit before income tax							186,322
Income tax expense							(30,780)
Profit for the period							155,542
Depreciation and amortisation	(48,415)	(65,542)	(4,090)	(62,003)	(5,824)	(6,760)	(192,634)

(ii) Segment assets and liabilities as at 30 June 2018 and 31 December 2017 are as follows:

As at 30 June 2018:

	Wastewater treatment RMB'000	Water supply RMB'000	Construction and sales of equipment RMB'000	Solid waste treatment RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
Segment assets	9,741,722	6,993,758	4,038,628	4,866,395	839,750	2,764,410	29,244,663
Segment assets include: Investments accounted for using the equity method	<u>190,723</u>	<u>317,191</u>	<u>32,094</u>	<u>102,766</u>	<u>4,534</u>	<u>—</u>	<u>647,308</u>
Segment liabilities	<u>2,916,494</u>	<u>1,834,895</u>	<u>2,249,554</u>	<u>1,149,181</u>	<u>1,302,533</u>	<u>13,271,183</u>	<u>22,723,840</u>

As at 31 December 2017:

	Wastewater treatment RMB'000	Water supply RMB'000	Construction and sales of equipment RMB'000	Solid waste treatment RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
Segment assets	7,528,533	6,127,885	3,204,309	4,907,107	1,224,204	4,104,011	27,096,049
Segment assets include: Investments accounted for using the equity method	<u>180,563</u>	<u>337,532</u>	<u>27,023</u>	<u>73,376</u>	<u>4,534</u>	<u>—</u>	<u>623,028</u>
Segment liabilities	<u>2,231,133</u>	<u>927,438</u>	<u>1,751,499</u>	<u>1,200,863</u>	<u>800,206</u>	<u>13,498,961</u>	<u>20,410,100</u>

5. Finance costs — net

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Finance income		
— Interest income from bank deposits	<u>10,610</u>	<u>19,822</u>
Finance costs		
— Borrowing costs	(355,871)	(237,778)
Less: amounts capitalised on qualifying assets	<u>56,801</u>	<u>19,943</u>
	(299,070)	(217,835)
— Unwinding of provision	(5,466)	(4,768)
— Net exchange losses on financing activities	(1,095)	(13,298)
	<u>(305,631)</u>	<u>(235,901)</u>
Finance costs — net	<u>(295,021)</u>	<u>(216,079)</u>

6. Income tax expense

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
— Corporate income tax	93,372	62,506
Deferred income tax		
— Corporate income tax	(59,783)	(31,726)
	<u>33,589</u>	<u>30,780</u>

7. Earnings per share

(a) Basic

The basic earnings per share is calculated by dividing the profit attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares issued during the six months ended 30 June 2018 and 2017.

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to the ordinary shareholders of the Company (<i>RMB'000</i>)	78,493	91,766
Weighted average numbers of ordinary shares in issue (<i>thousands</i>)	<u>1,193,213</u>	<u>1,193,213</u>
Basic earnings per share (<i>RMB per share</i>)	<u>0.066</u>	<u>0.077</u>

(b) Diluted

Diluted earnings per share is the same as basic earnings per share as there were no potential diluted ordinary shares outstanding during the six months ended 30 June 2018 and 2017.

8. Dividends

Pursuant to the resolution of the Company's Annual General Meeting held on 13 June 2018, the Company has declared 2017 dividends of RMB155,118,000 (2016 dividends: RMB119,321,000). The 2017 dividends were paid on 27 July 2018.

No interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil) has been proposed by the board of directors of the Company.

9. Receivables under service concession arrangements

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

	As at	
	30 June	31 December
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Receivables under service concession arrangements	6,441,717	5,111,148
Less: portion classified as current assets	(54,733)	(52,928)
Non-current portion	<u>6,386,984</u>	<u>5,058,220</u>

In respect of the Group's receivables under service concession arrangements, credit risks varied amongst the Group's projects operated in different locations of the PRC. The collection of receivables under services concession arrangements is closely monitored in order to minimise any credit risk associated with the receivables.

The receivables under service arrangements were billable receivables. They were mainly due from governmental authorities in Mainland China, as grantors in respect of the Group's service concession arrangements. Based on past experience over the expected life of the contract assets and adjusted for forward-looking estimates, 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 are considered fully recoverable.

10. Trade and other receivables and prepayments

	As at	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Trade receivables	4,306,260	3,509,126
Less: provision for impairment	<u>(41,721)</u>	<u>(41,721)</u>
	<u>4,264,539</u>	<u>3,467,405</u>
Other receivables	1,216,193	920,618
Less: provision for impairment	<u>(7,562)</u>	<u>(7,562)</u>
	<u>1,208,631</u>	<u>913,056</u>
Total trade and other receivables	5,473,170	4,380,461
Less: non-current portion of other receivables	<u>(13,770)</u>	<u>(30,214)</u>
Current portion of trade and other receivables	<u>5,459,400</u>	<u>4,350,247</u>
Prepayments	1,387,829	1,824,525
Less: non-current portion of prepayments	<u>(947,145)</u>	<u>(1,695,626)</u>
Current portion of prepayments	<u>440,684</u>	<u>128,899</u>

In general, the Group grants credit periods of 90 to 180 days to its customers. Aging 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	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Within one year	3,211,455	2,451,422
Over one year	<u>1,094,805</u>	<u>1,057,704</u>
	<u>4,306,260</u>	<u>3,509,126</u>

11. Trade and other payables

	As at	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Trade payables	4,341,171	3,028,851
Notes payables	—	40,000
Other payables	902,901	1,138,834
Advances from customers	—	52,531
Staff welfare benefit payable	3,764	38,562
Dividend payables	155,118	—
Other taxes payable	62,374	229,915
	<u>5,465,328</u>	<u>4,528,693</u>
Less: non-current portion	<u>(1,997,086)</u>	<u>(1,272,984)</u>
Current portion	<u><u>3,468,242</u></u>	<u><u>3,255,709</u></u>

As at 30 June 2018, the aging analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date were as follows:

	As at	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Within one year	3,097,255	1,830,650
Over one year	<u>1,243,916</u>	<u>1,198,201</u>
	<u><u>4,341,171</u></u>	<u><u>3,028,851</u></u>

12. Borrowings

	As at	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Non-current	10,125,423	9,349,422
Current	4,774,031	4,438,574
	<u>14,899,454</u>	<u>13,787,996</u>

Movements in borrowings is analysed as follows:

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Opening balance as at 1 January	13,787,996	8,298,479
Proceeds from borrowings	2,524,009	7,076,067
Repayments of borrowings	(1,447,981)	(2,576,866)
Acquisition of subsidiaries	—	13,400
Exchange losses/(gains) on financing activities	7,777	(4,098)
Currency translation differences	27,653	(54,598)
	<u>14,899,454</u>	<u>12,752,384</u>

INDUSTRY OVERVIEW

With the increasing emphasis on the environmental protection from the Party and the state, along with the gradual improving top-level design of ecological civilization in recent years, the environmental protection industry has shown a favorable momentum of healthy and rapid development. With the inclusion into the Constitution of the PRC in 2018, “ecological civilization” has been granted with higher legal status and stronger legal effect. Meanwhile, the establishment of the Ministry of Ecology and Environment (中華人民共和國生態環境部) enabled environmental protection as well as pollution prevention and control to be managed in an integrated manner. During the Reporting Period, the Environmental Protection Tax Law of the People’s Republic of China (《 中華人民共和國環境保護稅法 》), which is of great significance for protecting and improving the environment, reducing pollutant emissions, as well as promoting the construction of ecological civilization, has been officially implemented. In addition, the National Ecological Environmental Protection Conference (全國生態環境保護大會) was held, on which “intensifying efforts to promote the construction of ecological civilization, solving ecological and environmental issues, resolutely fighting the battle against pollution prevention and control, and promoting the construction of China’s ecological civilization to a higher level” was emphasized. Benefiting from all the above-mentioned laws, regulations and policies, the development of the environmental protection industry has been brought along with new opportunities and new impetus.

Under the background of ecological civilization construction, the water business industry has established its solid position in the market with its huge market scale and stable investment income. Based on the current development stage of the industry, the traditional water business represented by municipal water supply and wastewater treatment has been in a mature development stage with market space growing steadily year by year. However, the comprehensive treatment of water environment as well as the wastewater treatment in villages and towns are still under rapid development, showing a broad market space. In 2018, the processing capacity of the water business industry has continued to grow, and the demand for upgrading of treatment facilities as well as the construction of municipal and rural water supply networks becomes pressing. Furthermore, due to the official implementation of the newly revised Law on Water Pollution Prevention and Control of the People’s Republic of China (《 中華人民共和國水污染防治法 》) at the beginning of the year, which was attached with more stringent supervision and management, the optimization and upgrade as well as enhanced goals and efficiency will therefore become important tasks for water business enterprises with stock projects in the future.

Attributing to the increasingly stringent national policies, solid waste treatment, an indispensable part of ecological civilization construction, has become one of the fastest growing areas among China’s environmental protection industry. The Environmental Protection Tax Law of the People’s Republic of China (《 中華人民共和國環境保護稅法 》), which was officially implemented in early 2018, clearly stipulates the tax items and tax amount of solid waste, thus opening up a larger market for the solid waste treatment field and promoting the release of demand in the treatment of medical waste and hazardous waste. In 2018, along with the country’s high priority on and the in-depth development of environmental treatment, the potential for domestic solid waste treatment will shift from municipal area towards rural area; on the other hand, the treatment of industrial solid waste will become a hot topic under the trend of industrial de-capacity and the strict supervision of environmental protection.

2018 is the 40th anniversary of reform and opening up of the PRC while its ecological civilization construction has entered into a new era of development. Meanwhile, the concept of “Lucid waters and lush mountains are invaluable assets” has been in place, and the country’s determination on the treatment of the ecological environment is unprecedentedly strong. With the implementation of various policies, the market potential for environmental treatment will be continuously released, which will generate more opportunities and greater development potential for the environmental protection industry.

DEVELOPMENT STRATEGIES AND PROSPECT

In the first half of 2018, the external circumstance of the environmental protection industry was mixed with opportunities and challenges. In the meantime, due to the rising of interest rates and the widening of credit spreads in the financial market, the profit growth of the environmental protection industry was negatively affected. Therefore, the Group not only paid close attention to the changes in the external business environment, but also improved the operational management standards for its existing projects, while optimizing the debt structure and accelerating the implementation of the regional management model. In addition, the Group comprehensively promoted the enhancement of the operational effectiveness and efficiency of the Group, thereby achieving a steady growth of business on the basis of ensuring rigid implementation without any systemic risk of operation.

Due to the normalization of the national supervision and inspection on environmental protection as well as the refinement of the enforcement of environmental protection related law, it is expected that rectification measures instead of closing will be applied to the enterprises discharging pollutant gradually, which will promote the further release of the industrial environmental protection market. On the other hand, the National Development and Reform Commission indicated that it was necessary to gradually adjust the price of residential water to a level not lower than the cost, and the price of non-residential water to a level compensating cost with reasonable profit. The operation and development of the Group’s water business will also be benefited from such adjustment. In the second half of the year, the Group will pay close attention to the impacts on its business operation of the policies and regulations as well as the change in interest rate, and focus on improving its operational management level and quality. Meanwhile, on the basis of consolidating and expanding the scale of water business, the Group will accelerate the development of solid waste treatment segment, including industrial hazardous waste, medical hazardous waste, and garbage incineration-power generation, in order to promote the implementation of key investment projects, while consolidating and developing the Group’s market competitiveness among the industry.

In terms of financing, against the backdrop of credit scale getting tighter and capital cost rising gradually, the Group will strictly control its financial cost while properly matching the plans of annual investment with capital usage, to obtain low-cost fund to the greatest extent. Meanwhile, the Group will strengthen its fund management, so as to further enhance the utilization efficiency of its internal fund. In terms of investment, the Group will improve the investment efficiency of external investment projects and equity mergers and acquisitions, while paying close attention to the proportion of operational assets in municipal environment comprehensive treatment project package and the financial ability of the local governments where the projects are located, and will give priority to the projects which are supported by stable cash flow and with reasonable gain. For operation management, the Group will speed up the pace of quality improvement and efficiency enhancement for the existing operating projects, while strengthening the dynamic supervision and management of the Group’s receivables and payables scale as well as the management of revenue and expenditure plans, and will also make overall arrangement to prevent liquidity risks.

Looking forward, the Group will continue to adhere to the development goal of “based in Yunnan, covering the country and going global, striving to be a leading integrated service provider of municipal environment”, and to seize more market opportunities in the environmental protection industry. Meanwhile, by taking advantage of new environmental protection policies, the Group will further enhance its technological capabilities, investment and financing capabilities, core competitiveness and social influence, thereby continuously creating greater value for shareholders.

BUSINESS REVIEW

The Group is one of the leading municipal environment integrated services providers in the PRC. The Group mainly adopts the Build-Operate-Transfer (“**BOT**”), Build-Own-Operate (“**BOO**”), Transfer-Own-Operate (“**TOO**”), Transfer-Operate-Transfer (“**TOT**”), Build and Transfer (“**BT**”), Engineering-Procurement-Construction (“**EPC**”), Operation and Maintenance (“**O&M**”) project models to provide customized and integrated turnkey solutions for water supply, wastewater treatment and solid waste treatment as well as the comprehensive treatment of municipal environment (which includes watercourse treatment, black and odorous water treatment, reservoir work and etc.) to customers. The Group’s businesses are principally carried out in the PRC 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 30 June 2018, the Group’s relevant water projects (including the following wastewater treatment projects, water supply projects and all water related projects under other business segments) had a total daily treatment capacity of approximately 5,036,800 tonnes, representing an increase of approximately 6.9% as compared to the total daily treatment capacity of 4,712,700 tonnes as at 31 December 2017.

As at 30 June 2018, the Group’s relevant solid waste treatment projects (including the following solid waste treatment projects and all solid waste treatment related projects under other business segments) had a total annual solid waste treatment capacity of approximately 2,574,000 tonnes, representing an increase of approximately 16.4% as compared to the total annual treatment capacity of 2,211,000 tonnes as at 31 December 2017.

Meanwhile, the Group has been closely following the policies introduced by the Chinese government, and actively capturing the market opportunities to expand its footage in the municipal environment comprehensive treatment projects. During the Reporting Period, the Group had obtained five main relevant projects including “urban water comprehensive treatment works” in Qinyang City, Henan Province, “construction of wastewater treatment facilities” in the entire Xuwen County, Zhanjiang City, Guangdong Province, “urban water transformation and upgrading works” in Wuzhi County, Jiaozuo City, Henan Province, “the integration of water supply and drainage” in Shuangcheng District, Harbin City, Heilongjiang Province and “the wastewater treatment system” in Xianmei Area, Rongcheng District, Jiayang City, Guangdong Province. The total investment amount of the above-mentioned five projects was approximately RMB6 billion with business involving wastewater treatment, the integration of water supply and drainage, watercourse comprehensive treatment and etc., among which most of the projects are carried out by way of service concession arrangement (eg. BOT model). As at 30 June 2018, the Group had 16 projects in relation to the municipal environment comprehensive treatment under construction.

Wastewater Treatment Projects

As at 30 June 2018, the Group had a total of 109 concession wastewater treatment projects which were either under construction or in operation, including 7 BOO projects, 67 BOT projects, 2 TOO projects, 20 TOT projects and 13 municipal environment comprehensive treatment projects, with a total daily wastewater treatment capacity of 2,778,000 tonnes, representing an addition of 2 BOO projects, 1 BOT project, 6 TOT projects and 3 municipal environment comprehensive treatment projects, and an increase in the total daily wastewater treatment capacity of 259,000 tonnes or a growth rate of approximately 10.6% as compared with 31 December 2017.

As at 30 June 2018, 83 concession projects with a total daily wastewater treatment capacity of 2,352,000 tonnes had commenced commercial operation, representing an addition of 6 TOT projects and an increase in the total daily wastewater treatment capacity of 168,000 tonnes as compared with 31 December 2017. During the Reporting Period, the Group's effective wastewater treatment utilization rate was approximately 73.88%, and the average unit charge of wastewater treatment was approximately RMB1.33 per tonne.

As at 30 June 2018, 26 concession projects with a total daily wastewater treatment capacity of 426,000 tonnes had not commenced commercial operation (including 13 municipal environment comprehensive treatment projects with a total daily wastewater treatment capacity of 115,000 tonnes), representing an addition of 1 BOT project, 2 BOO projects and 3 municipal environment comprehensive treatment projects, and an increase in the total daily wastewater treatment capacity of 91,000 tonnes as compared with 31 December 2017.

Water Supply Projects

As at 30 June 2018, the Group had 51 concession water supply projects with a total daily capacity of approximately 1,887,000 tonnes which were either under construction or in operation, including 13 BOO projects, 25 BOT projects, 11 TOT projects and 2 municipal environment comprehensive treatment projects, representing an addition of 1 BOT project, and an increase in the total daily capacity of approximately 20,000 tonnes or a growth rate of approximately 1.2% as compared with 31 December 2017.

As at 30 June 2018, 32 concession projects with a total daily capacity of approximately 1,285,000 tonnes had commenced commercial operation.

During the Reporting Period, the Group's effective water supply utilization rate was approximately 71.94%, and the average unit charge of water supply was approximately RMB2.27 per tonne.

As at 30 June 2018, 19 concession projects with a total daily capacity of approximately 602,000 tonnes had not commenced commercial operation (including 2 municipal environment comprehensive treatment projects with a total daily capacity of 180,000 tonnes), representing an addition of 1 BOT project, and an increase in the total daily capacity of approximately 20,000 tonnes as compared with 31 December 2017.

Solid Waste Treatment Projects

As at 30 June 2018, the Group had 14 solid waste treatment projects with a total annual treatment capacity of 2,428,000 tonnes, 8 of them with an annual treatment capacity of 1,168,000 tonnes had commenced commercial operation, and 6 of them with an annual treatment capacity of 1,260,000 tonnes were under construction (including 1 municipal environment comprehensive treatment project with an annual treatment capacity of 300,000 tonnes). As compared with 31 December 2017, 2 additional solid waste treatment projects were under construction and the total annual treatment capacity increased by 381,000 tonnes. During the Reporting Period, the Group's effective solid waste treatment utilization rate was approximately 84.4%.

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 30 June 2018, the Group had a total of 11 BT projects, which were either under construction and/or completed, among which the revenue of 10 BT projects were recognized during the Reporting Period.

During the Reporting Period, the Group had a total of 10 EPC projects.

The Group engages in the production, sales and installation of facilities for wastewater treatment and water supply as well as facilities required for solid waste treatment. The major category of water business 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 at 30 June 2018, the Group had 32 O&M projects, including 30 wastewater treatment projects with a total daily wastewater treatment capacity of approximately 366,800 tonnes, 1 water supply project with a daily capacity of approximately 5,000 tonnes and 1 solid waste treatment project with an annual treatment capacity of approximately 146,000 tonnes.

FINANCIAL REVIEW

Results of Operation

During the Reporting Period, the Group recorded a revenue of approximately RMB2,422.9 million, representing a year-on-year increase of 46.2% as compared with the six months ended 30 June 2017. During the Reporting Period, the Group realized core business profit of approximately RMB124.6 million, representing a significant increase as compared with the six months ended 30 June 2017. Core business profit represents profit for the period excluding fair value gains or losses on the remeasurement of investments accounted for using the equity method and one-off recovery of other receivables. During the Reporting Period, the Group realized a net profit of approximately RMB127.1 million, representing a year-on-year decrease of 18.3% as compared with the six months ended 30 June 2017. Profit attributable to the ordinary shareholders of the Company was approximately RMB78.5 million, representing a year-on-year decrease of 14.5% as compared with the six months ended 30 June 2017. Earnings per share for the six months ended 30 June 2018 was approximately RMB0.066.

Revenue

Revenue of the Group increased from approximately RMB1,657.7 million for the six months ended 30 June 2017 to approximately RMB2,422.9 million for the Reporting Period, representing an increase of approximately 46.2%.

In respect of the business segments of the Group, revenue from the wastewater treatment business segment increased to approximately double the revenue of approximately RMB596.8 million for the six months ended 30 June 2017 to approximately RMB1,269.0 million for the Reporting Period. Revenue from the water supply segment decreased by approximately 18.1% from approximately RMB620.2 million for the six months ended 30 June 2017 to approximately RMB508.0 million for the Reporting Period. Revenue from solid waste treatment business segment increased by approximately 25.8% from RMB238.5 million for the six months ended 30 June 2017 to approximately RMB300.0 million for the Reporting Period. Revenue from construction and sales of equipment business segment increased by approximately 69.8% from approximately RMB178.0 million for the six months ended 30 June 2017 to approximately RMB302.3 million for the Reporting Period. Revenue from other business increased by approximately 80.2% from approximately RMB24.2 million for the six months ended 30 June 2017 to approximately RMB43.6 million for the Reporting Period.

The increase in revenue from the wastewater treatment business segment was mainly attributable to (i) an increase in construction revenue generated by the large-scale construction investments of certain municipal environment comprehensive treatment projects during the Reporting Period; and (ii) certain wastewater projects acquired in the second quarter of 2017, realized a full half-year revenue during the Reporting Period.

The decrease in revenue from the water supply business segment was mainly attributable to (i) a sharply decrease in construction revenue due to the finishing touch on several main water supply projects in Dali city during the Reporting Period; and (ii) a modest increase in operating revenue of ongoing water supply projects, and the increase in operating revenue is less than the decrease in construction revenue.

The increase in revenue from the solid waste treatment business segment was mainly attributable to (i) an increase in construction revenue generated by certain solid waste treatment projects under construction; and (ii) certain solid waste projects which acquired in the second half of 2017 recorded a full half-year revenue during the Reporting Period.

The increase in revenue from the construction and sales of equipment business segment was mainly attributable to the expansion of EPC construction services and equipment sales during the Reporting Period.

The increase in revenue from the other business segment was mainly generated by certain newly acquired O&M projects during the Reporting Period.

Cost of Sales

During the Reporting Period, the Group recorded cost of sales of approximately RMB1,841.0 million, representing a year-on-year increase of RMB596.4 million or a growth rate of 47.9% as compared with approximately RMB1,244.6 million for the six months ended 30 June 2017. The increase was primarily due to (i) an increase in construction investments due to the constructions of several ongoing and newly-acquired wastewater treatment and solid waste treatment projects during the Reporting Period; and (ii) the expansion of EPC construction services and equipment sales led to an increase of multiple services and goods purchase costs during the Reporting Period.

Gross Profit Margin

During the Reporting Period, gross profit margin of the Group was approximately 24.0%, representing a slight decrease of approximately 0.9% as compared with approximately 24.9% for the six months ended 30 June 2017.

Other Income

During the Reporting Period, the Group recorded other income of approximately RMB51.7 million, representing a year-on-year decrease of RMB103.3 million or a decrease rate of 66.6% as compared with approximately RMB155.0 million for the six months ended 30 June 2017. The year-on-year decrease in other income was mainly attributable to a recovery of certain other receivables during the six months ended 30 June 2017.

Selling Expenses

During the Reporting Period, selling expenses of the Group were approximately RMB21.3 million, representing a year-on-year increase of RMB3.0 million or a growth rate of 16.4% from approximately RMB18.3 million for the six months ended 30 June 2017. The increase of selling expenses was in line with the growth of multiple operating segments during the Reporting Period.

Administrative Expenses

During the Reporting Period, administrative expenses of the Group were approximately RMB177.2 million representing a year-on-year decrease of RMB25.3 million or a decrease rate of 12.5% from approximately RMB202.5 million for the six months ended 30 June 2017. The decrease in administrative expenses was primarily due to a decrease in legal and professional fees which is led by slowing-down business acquisitions during the Reporting Period.

Finance Costs — net

Net finance costs increased by RMB78.9 million from approximately RMB216.1 million for the six months ended 30 June 2017 to approximately RMB295.0 million for the Reporting Period, representing a growth rate of 36.5%. The increase in net finance costs was primarily due to a larger scale of bank and other borrowings.

The average interest rate on borrowings of the Group for the Reporting Period was approximately 4.87% per annum, representing a year-on-year increase of 0.61% as compared with 4.26% for the six months ended 30 June 2017. The increase in the average borrowing rate was due to the nationwide increase of financing interest rate in the Reporting Period.

Profit Before Income Tax

As a result of the above factors, the Group recorded a profit before income tax of approximately RMB160.7 million for the six months ended 30 June 2018, representing a decrease of approximately 13.7% as compared with approximately RMB186.3 million recorded for the six months ended 30 June 2017.

Income Tax Expenses

Income tax expenses increased by RMB2.8 million from approximately RMB30.8 million for the six months ended 30 June 2017 to approximately RMB33.6 million for the Reporting Period, representing a growth rate of approximately 9.1%. The weighted average effective tax rate was approximately 20.9% (for the year ended 31 December 2017: 20.1%). 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 decreased by RMB28.4 million from approximately RMB155.5 million for the six months ended 30 June 2017 to approximately RMB127.1 million for the Reporting Period, representing a decrease of approximately 18.3%. Net profit margin decreased from approximately 9.4% for the six months ended 30 June 2017 to approximately 5.2% for the Reporting Period.

Receivables under Service Concession Arrangements

The Group's receivables under service concession arrangements increased by RMB1,330.6 million from approximately RMB5,111.1 million as at 31 December 2017 to approximately RMB6,441.7 million as at 30 June 2018, representing an increase of approximately 26.0%. Such increase was primarily due to (i) an increase in investments on municipal environment comprehensive treatment projects under construction; and (ii) the receivables of a newly acquired wastewater concession project during the Reporting Period.

Trade and Other Receivables and Prepayments

The Group's trade and other receivables and prepayments increased by RMB656.0 million from approximately RMB6,205.0 million as at 31 December 2017 to approximately RMB6,861.0 million as at 30 June 2018, representing an increase of approximately 10.6%. Such increase was primarily due to a continuous increase in scale of EPC construction services and sales of equipment let to an increase in purchase prepayments and trade receivables.

Cash and Cash Equivalents

The Group's total cash balance decreased by RMB884.3 million from approximately RMB2,896.9 million as at 31 December 2017 to approximately RMB2,012.6 million as at 30 June 2018, representing a decrease of approximately 30.5%. Such decrease was primarily due to continuous construction investments of existing and newly acquired municipal environment comprehensive treatment projects under construction, resulting in payments during the Reporting Period.

Trade and Other Payables

The Group's trade and other payables increased by RMB936.6 million from approximately RMB4,528.7 million as at 31 December 2017 to approximately RMB5,465.3 million as at 30 June 2018, representing an increase of approximately 20.7%. Such increase was primarily due to (i) the increasing scale of services and goods purchase for EPC construction projects and sales of equipment; (ii) an increase in projects of construction services payable due to the continuous investments in municipal environment comprehensive treatment projects under construction; (iii) the increase in trade and other payables of newly-acquired subsidiaries during the Reporting Period.

Borrowings

As at 30 June 2018, the Group had borrowings of approximately RMB14,899.5 million (31 December 2017: approximately RMB13,788.0 million).

As at 30 June 2018, the Group had unsecured borrowings of approximately RMB11,721.4 million (31 December 2017: approximately RMB10,465.7 million), and secured borrowings of approximately RMB3,178.1 million (31 December 2017: approximately RMB3,322.3 million).

Pledge of Assets

As at 30 June 2018, the Group had borrowings of approximately RMB1,543.0 million which were secured by the Group's land use rights and shares of subsidiaries (31 December 2017: borrowings of approximately RMB1,633.4 million which were secured by the Group's land use rights, shares of a subsidiary and a joint venture). As at 30 June 2018, the Group had borrowings of approximately RMB1,635.1 million (31 December 2017: approximately RMB1,688.9 million) which were secured by right of charges from water supply, wastewater treatment, solid waste treatment and BT projects.

Capital Commitments

The Group's capital commitments increased by RMB621.9 million from approximately RMB7,949.7 million as at 31 December 2017 to approximately RMB8,571.6 million as at 30 June 2018, representing an increase of approximately 7.8%. Such increase was primarily due to the Group's increased investments in multipal concession projects.

Gearing Ratio

The Group's gearing ratio (calculated as net debt divided by total capital) increased from approximately 61.96% as at 31 December 2017 to approximately 66.40% as at 30 June 2018. The increase in gearing ratio was mainly due to the increasing scale of debt financing during the Reporting Period.

The Initial Public Offering

The H shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 27 May 2015 (the "**IPO**"). 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 the proceeds is in line with the information as disclosed in the prospectus of the Company dated 13 May 2015. As at 30 June 2018, the proceeds has been fully utilized.

Employees and Remuneration Policy

As at 30 June 2018, the Group hired 5,853 employees (31 December 2017: 5,302). For the six months ended 30 June 2018, employee cost of the Group were approximately RMB231.2 million (for the six months ended 30 June 2017: approximately RMB174.8 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. 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 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**”).

The Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimizing its net foreign currency position. Management considers the fluctuations in exchange rates between the functional currencies of respective group entities and Non-functional Currencies in which the group entities conducts business will not have significant effect on the Group's financial position and results of operations.

Contingent Liabilities

As at 30 June 2018, the Group did not have any significant contingent liabilities.

INTERIM DIVIDEND

The Board does not recommend any distribution of interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

- On 11 January 2018, the Company together with YCIH No.5 Construction Co., Ltd.* (雲南建投第五建設有限公司) were formally awarded a project in relation to Qinyang urban water comprehensive treatment works, which was granted by Qinyang Housing and Urban-Rural Development Bureau (沁陽市住房和城鄉建設局) through public tender and authorized by the People's Government of Qinyang City, Henan Province. The total estimated investment amount of the project is approximately RMB1,767,973,000.
- On 24 January 2018, the Company entered into a joint venture agreement with Qinyang Qinbei Construction Investment Co., Ltd.* (沁陽市沁北建設投資有限公司) and YCIH No.5 Construction Co., Ltd.* (雲南建投第五建設有限公司) in relation to the establishment of Qinyang Yunhuai Water Co., Ltd.* (沁陽市雲懷水務有限公司) as a joint venture company in Henan Province, the PRC, with a total investment amount of RMB442,003,000.
- On 13 February 2018, Yunnan Water (Hong Kong) Company Limited and the Company (as the purchaser) has entered into the Equity Transfer Agreement with Mr. Wang Zhi (as the vendor), Future International Group Co., Limited and Huize Water (Qingzhou) Company Limited* (暉澤水務(青州)有限公司) (“**Huize**”) for purchasing and selling the remaining 35% of Huize at a consideration of RMB200,000,000.

- On 21 March 2018, the Company together with Guangdong Yixin Great Wall Construction Group Co., Ltd.* (廣東一新長城建築集團有限公司) and Zhongdu Engineering Design Co., Ltd.* (中都工程設計有限公司) were formally awarded a project in relation to the construction of wastewater treatment facilities in the entire Xuwen County, which was granted by the Housing and Urban-Rural Development Bureau of Xuwen County (徐聞縣住房和城鄉建設局) through public tender and authorized by the People's Government of Xuwen County, Zhanjiang City, Guangdong Province, the PRC. The total estimated investment amount of the project is RMB1,249,740,000.

- On 4 April 2018, the Company together with YCIH No. 5 Construction Co., Ltd.* (雲南建投第五建設有限公司) were formally awarded a project in relation to Wuzhi County urban water transformation and upgrading works, which was granted by the Wuzhi County Water Resources Bureau (武陟縣水利局) through public tender and authorized by the People's Government of Wuzhi County, Jiaozuo City, Henan Province. The total estimated investment amount of the project is RMB1,103,097,800.

- On 3 May 2018, the Company together with Heilongjiang Shuangxing Municipal Engineering Co., Ltd.* (黑龍江雙興市政工程有限責任公司) were formally awarded a project in relation to the integration of water supply and drainage in Shuangcheng District, Harbin City, Heilongjiang Province, which was granted by Harbin Shuangcheng Water Supply and Drainage Group Co., Ltd.* (哈爾濱市雙城區供排水集團公司) through public tender and authorized by the People's Government of Harbin City, Heilongjiang Province. The total estimated investment amount of the project is approximately RMB1,260,669,800.

- On 4 May 2018, the Company, Guangdong Yixin Great Wall Construction Group Co., Ltd.* (廣東一新長城建築集團有限公司) and Zhongdu Engineering Design Co., Ltd.* (中都工程設計有限公司) entered into a joint venture agreement in relation to the establishment of Xuwen Yunshui Environmental Protection Co., Ltd.* (徐聞縣雲水環保有限公司) as a joint venture company in Xuwen County, Zhanjiang City, Guangdong Province, the PRC, with a total investment amount of RMB380,000,000.

- On 25 May 2018, the Company together with Guangzhou Engineering Contractor Group Co., Ltd.* (廣州工程總承包集團有限公司) and Anhui Urban Construction Design Institute Corp., Ltd.* (安徽省城建設計研究總院股份有限公司) were formally awarded a project in relation to the wastewater treatment system construction project in Xianmei Area, Rongcheng District, Jieyang City, which was granted by Jieyang City Rongcheng District Construction Bureau* (揭陽市榕城區建設局) by way of public tender and authorized by the People's Government of Jieyang City, Guangdong Province. The total estimated investment amount of the project is approximately RMB287,892,900.

For details of the above-mentioned significant investments and acquisitions, please refer to the announcements published by the Company on 11 January 2018, 24 January 2018, 13 February 2018, 21 March 2018, 4 April 2018, 3 May 2018, 4 May 2018 and 25 May 2018 respectively.

Subsequent Events

- The registered address of the Company in the PRC has been changed to Yunnan Water, 2089 Haiyuan Bei Road, Gaoxin District, Kunming, Yunnan, with effect from 9 July 2018.
- On 24 July 2018, the Company together with Guangzhou Engineering Contractor Group Co., Ltd.* (廣州工程總承包集團有限公司) were formally awarded a project in relation to the whole package of domestic wastewater treatment facilities in Jiexi County, which was granted by Jieyang City Jiexi County Housing and Urban-Rural Construction Bureau* (揭陽市揭西縣住房和城鄉建設局) through public tender and authorized by the People's Government of Jieyang City, Guangdong Province. The total estimated investment amount of the project is approximately RMB726,709,300.
- On 16 August 2018, the Company was formally awarded a project in relation to the integrated treatment of solid wastes for the Venous Industrial Park in Ganquanbao Economic Development Zone in Urumqi, which was granted by Management Center for Construction and Development of Service Industries of Ganquanbao Industrial Zone (Economic Development Zone) in Urumqi by way of public tender and was authorized by the People's Government of Urumqi City, Xinjiang Uygur Autonomous Region (新疆維吾爾自治區烏魯木齊市人民政府). The total estimated construction investment amount of the Project is approximately RMB398,529,000.

For details of the above-mentioned subsequent events, please refer to the announcements published by the Company on 9 July 2018, 24 July 2018 and 16 August 2018 respectively.

NOMINATION COMMITTEE

The Nomination Committee currently consists of one non-executive Director, Mr. Yang Tao (as chairman), and two independent non-executive Directors, Mr. Hu Song and Mr. Ma Shihao.

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 regarding 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 had convened two meetings, to discuss the nomination of Mr. Liu Shuen Kong as the independent non-executive Director candidate of the second session of the Board and the nomination of Mr. Huang Yi as the member of Compliance Committee and to express opinion in this regard. For details, please refer to the circular and announcement of change of composition of Board committees of the Company dated 27 April 2018 and 25 May 2018, respectively.

REMUNERATION COMMITTEE

The Remuneration Committee currently consists of one executive Director, Mr. Yang Fang and two independent non-executive Directors Mr. Hu Song (as chairman) and Mr. Ma Shihao.

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; reviewing and approving 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 advising Shareholders with respect to the service contracts of Directors that require Shareholders' approval under the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). Terms of reference of the Remuneration Committee have been published on the website of the Company.

AUDIT COMMITTEE

The Audit Committee currently consists of three independent non-executive Directors, Mr. Liu Shuen Kong (appointed on 13 June 2018 as the chairman in place of Mr. Kwok For Chi who resigned as the member and the chairman of the Audit Committee and the member of the Compliance Committee on the same day), Mr. Hu Song and Mr. Ma Shihao.

The principal responsibilities of the Audit Committee include reviewing and supervising the financial reporting process, risk management and internal control system of the Company, including making recommendations on appointing and changing the external auditor and its terms of engagement; reviewing and monitoring external auditor's independence and audit process objectively; monitoring the integrity of the Company's financial statements, annual report and accounts and half-year report; overseeing of the Company's financial reporting system, risk management and internal control system; attending to 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.

During the Reporting Period, the Audit Committee had convened one meeting, to discuss the annual results of 2017, the proposed distribution of final dividend, the re-appointment of auditor and to review the establishment of internal control of 2017 of the Company and other matters.

The Audit Committee had reviewed the unaudited interim condensed financial information of the Group for the Reporting Period. The Audit Committee had also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control matters with senior management of the Company.

COMPLIANCE COMMITTEE

The Compliance Committee currently consists of one executive Director, Mr. Dai Richeng (as chairman), three independent non-executive Directors, Mr. Liu Shuen Kong, Mr. Hu Song and Mr. Ma Shihao, and one Supervisor, Mr. Huang Yi (appointed on 25 May 2018 to replace Ms. Yang Chuanyun, the resigning member of the Compliance Committee).

The principal responsibilities of the Compliance Committee are to conduct independent investigation and make decisions on compliance matters with respect to the business operations as authorized by the Board. The Company has established the Compliance Committee to ensure the operation of any projects acquired and operated by the Group are in compliance with the Company's 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.

INFORMATION ON DIRECTORS AND SUPERVISORS

Changes in information on Directors and supervisors of the Company (the “**Supervisors**”) which are required to be disclosed pursuant to Rules 13.51(2) and 13.51B(1) of the Listing Rules are as follows:

On 13 April 2018, Mr. Kwok For Chi resigned as an independent non-executive Director, member and chairman of the Audit Committee and member of the Compliance Committee with effective from the conclusion of the annual general meeting of 2018.

On 21 May 2018, Ms. Yang Chuanyun resigned as the employee representative Supervisor with effect from the same date.

Mr. Liu Shuen Kong was appointed as an independent non-executive Director and the member and chairman of the Audit Committee, with effect from 13 June 2018 until the expiry of the term of office of the second session of the Board.

Ms. Zhang Ling was appointed as an independent Supervisor at the 2018 first extraordinary general meeting, with effect from 5 January 2018 until the expiry of the term of office of the second session of the Supervisory Committee.

Mr. Huang Yi was appointed as an employee representative Supervisor on 21 May 2018 and was appointed as a member of the Compliance Committee on 25 May 2018. Mr. Huang Yi's term of office as an employee representative Supervisor was effective from 21 May 2018 until the end of the term office of the second session of the Supervisory Committee. Mr. Huang Yi's term of office as a member of the Compliance Committee was effective from 25 May 2018 until the expiry of the term of office of the second session of the Board.

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 2017.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company had complied with all code provisions as set out in the Corporate Governance Code throughout the six months ended 30 June 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as the code of conduct regarding securities transactions by the Directors and supervisors of the Company.

The Company had made specific enquiries with all of its Directors and Supervisors, and all Directors and Supervisors had confirmed that they have fully complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

DIRECTORS’ INTERESTS IN COMPETING BUSINESS

During the six months ended 30 June 2018, to the best knowledge of the Board, none of the Directors and Supervisors and their respective associates had any business or interest that competes or may compete with the business of the Group or had or might have any conflict of interest with the Group.

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

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

PUBLIC FLOAT

According to public information available to the Company and to the best knowledge of the Board, as at the date of this interim results announcement, at least 25% of the total issued share capital of the Company were held in public hands.

REVIEW OF THE INTERIM RESULTS

The Group’s unaudited interim condensed consolidated financial information for the six months ended 30 June 2018 has been reviewed by the auditor of the Company, PricewaterhouseCoopers, in accordance with the Hong Kong Review Engagement Standards 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by Hong Kong Institute of Certified Public Accountants. The unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2018 has also been reviewed by the Audit Committee.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement has been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.yunnanwater.cn). The interim report of the Group for the six months ended 30 June 2018 will be dispatched to Shareholders in due course and published on the aforesaid websites of the Stock Exchange and the Company.

By Order of the Board
Yunnan Water Investment Co., Limited*
Yang Tao
Chairman

Kunming, the PRC
29 August 2018

As at the date of this announcement, the executive Directors are Mr. Dai Richeng (Vice-chairman) and Mr. Yang Fang, the non-executive Directors are Mr. Yang Tao (Chairman), Mr. He Yuanping, Ms. Li Bo and Mr. Feng Zhuangzhi, and the independent non-executive Directors are Mr. Liu Shuen Kong, Mr. Hu Song and Mr. Ma Shihao.

* *For identification purposes only*