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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 2017**

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB5,142.2 million, representing an increase of approximately 79.4% compared with the year ended 31 December 2016
- Profit for the year was approximately RMB544.0 million, representing an increase of approximately 31.3% compared with the year ended 31 December 2016
- Profit attributable to ordinary shareholders of the Company was approximately RMB422.8 million, representing an increase of approximately 8.9% compared with the year ended 31 December 2016
- Basic earnings per share was approximately RMB0.354, representing an increase of approximately 8.9% compared with the year ended 31 December 2016
- The Board recommends the distribution of final dividend of RMB0.13 per share (tax included) for the year ended 31 December 2017

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 2017 (the “**Reporting Period**”) together with the comparative figures as follows:

FINANCIAL INFORMATION OF THE GROUP

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

	Note	Year ended 31 December	
		2017	2016
		RMB'000	RMB'000
Revenue	4	5,142,242	2,865,890
Cost of sales		<u>(3,837,518)</u>	<u>(1,986,390)</u>
Gross profit		1,304,724	879,500
Other income	5	309,566	160,389
Other gains - net	6	57,354	8,387
Selling expenses		(39,524)	(22,810)
Administrative expenses		<u>(431,477)</u>	<u>(331,001)</u>
Operating profit		1,200,643	694,465
Finance income	7	—	12,674
Finance expenses	7	<u>(521,481)</u>	<u>(232,816)</u>
Finance costs - net		(521,481)	(220,142)
Share of profit of investments accounted for using the equity method		<u>23,082</u>	<u>42,411</u>
Profit before income tax		702,244	516,734
Income tax expenses	8	<u>(158,244)</u>	<u>(102,468)</u>
Profit for the year		<u>544,000</u>	<u>414,266</u>
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
- Exchange differences on translation of foreign operations		148,011	5,123
- Share of other comprehensive income of a joint venture accounted for using the equity method		<u>3,731</u>	<u>(29,643)</u>
		<u>151,742</u>	<u>(24,520)</u>
Total comprehensive income for the year, net of tax		<u>695,742</u>	<u>389,746</u>

	<i>Note</i>	Year ended 31 December	
		2017	2016
		<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to:			
- Ordinary shareholders of the Company		422,812	388,093
- Holders of perpetual capital instruments		85,444	—
- Non-controlling interests		<u>35,744</u>	<u>26,173</u>
		<u>544,000</u>	<u>414,266</u>
Total comprehensive income attributable to:			
- Ordinary shareholders of the Company		574,554	363,573
- Holders of perpetual capital instruments		85,444	—
- Non-controlling interests		<u>35,744</u>	<u>26,173</u>
		<u>695,742</u>	<u>389,746</u>
Earnings per share for profit attributable to ordinary shareholders of the Company (expressed in RMB per share)			
- Basic and diluted	9	<u>0.354</u>	<u>0.325</u>

(b) Consolidated balance sheet

		As at 31 December	
	Note	2017	2016
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		2,379,444	2,326,287
Investment properties		26,692	17,177
Land use rights		189,751	192,381
Receivables under service concession arrangements	11	5,058,220	2,860,146
Amounts due from customers for contract works		260,694	659,974
Intangible assets		8,508,853	4,560,375
Investments accounted for using the equity method		623,028	746,680
Available-for-sale financial assets		4,675	4,675
Trade and other receivables	12	30,214	128,605
Prepayments	12	1,695,626	1,230,108
Deferred income tax assets		<u>314,869</u>	<u>245,992</u>
		<u>19,092,066</u>	<u>12,972,400</u>
Current assets			
Receivables under service concession arrangements	11	52,928	31,082
Inventories		45,630	27,385
Amounts due from customers for contract works		405,060	30,614
Trade and other receivables	12	4,350,247	2,723,824
Prepayments	12	128,899	133,538
Restricted cash		124,292	9,610
Cash and cash equivalents		<u>2,896,927</u>	<u>4,129,921</u>
		<u>8,003,983</u>	<u>7,085,974</u>
Total assets		<u><u>27,096,049</u></u>	<u><u>20,058,374</u></u>

		As at 31 December	
	<i>Note</i>	2017	2016
		<i>RMB'000</i>	<i>RMB'000</i>
EQUITY			
Equity attributable to ordinary shareholders of the Company			
Share capital		1,193,213	1,193,213
Other reserves		2,331,308	2,247,305
Retained earnings		<u>1,012,044</u>	<u>800,051</u>
		4,536,565	4,240,569
Perpetual capital instruments		1,200,000	2,000,000
Non-controlling interests		<u>949,384</u>	<u>1,005,890</u>
Total equity		<u>6,685,949</u>	<u>7,246,459</u>
LIABILITIES			
Non-current liabilities			
Borrowings	14	9,349,422	5,689,554
Trade and other payables	13	1,272,984	49,055
Deferred income		633,892	646,997
Deferred income tax liabilities		970,786	646,890
Provision		<u>263,487</u>	<u>78,717</u>
		12,490,571	7,111,213
Current liabilities			
Borrowings	14	4,438,574	2,608,925
Trade and other payables	13	3,255,709	2,858,512
Amounts due to customers for contract works		5,023	3,333
Current income tax liabilities		<u>220,223</u>	<u>229,932</u>
		7,919,529	5,700,702
Total liabilities		<u>20,410,100</u>	<u>12,811,915</u>
Total equity and liabilities		<u>27,096,049</u>	<u>20,058,374</u>

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. 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 Group is 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.

2. Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

3. Accounting policies

(a) *Amendments to standards adopted by the Group*

The following amendments to standards are mandatory for the Group's financial year beginning 1 January 2017. The adoption of these new standards and amendments to standards does not have significant impact to the results or financial position of the Group.

HKAS 12 (Amendments)	Income taxes
HKAS 7 (Amendments)	Statement of cash flows
HKFRS 12 (Amendments)	Disclosure of interest in other entities

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 and have not been applied in preparing these consolidated financial statements.

HKFRS 15	Revenue from contracts with customers ¹
HKFRS 9	Financial instruments ¹

HKAS 28 (Amendments)	Investments in associates and joint ventures ¹
HKAS 40 (Amendments)	Transfers of investment property ¹
HK (IFRIC) 22	Foreign currency transactions and advance consideration ¹
HKFRS 16	Leases ²
HK (IFRIC) 23	Uncertainty over income tax treatments ²
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture ³

^{1.} Effective for annual periods beginning on 1 January 2018.

^{2.} Effective for annual periods beginning on 1 January 2019.

^{3.} Effective date to be determined.

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;
- (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.

4. Segment information (Continued)

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 and capital expenditure for the year ended 31 December 2017 are as follows:

Year ended 31 December 2017:

	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	1,683,515	1,194,246	1,578,866	573,461	515,254	—	5,545,342
Inter-segment revenue	—	—	(403,100)	—	—	—	(403,100)
Revenue	1,683,515	1,194,246	1,175,766	573,461	515,254	—	5,142,242
Gross profit	518,415	144,185	422,381	152,637	67,106	—	1,304,724
Other income							309,566
Other gains - net							57,354
Selling expenses							(39,524)
Administrative expenses							(431,477)
Finance costs - net							(521,481)
Share of profit/(loss) of investments accounted for using the equity method	24,652	(23,876)	21,002	1,304	—	—	23,082
Profit before income tax							702,244
Income tax expenses							(158,244)
Profit for the year							544,000
Depreciation and amortisation	(115,420)	(159,927)	(13,351)	(129,073)	(12,561)	(10,916)	(441,248)
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	180,563	337,532	27,023	73,376	4,534	—	623,028
Segment liabilities	2,231,133	927,438	1,751,499	1,200,863	800,206	13,498,961	20,410,100
Additions to non-current assets (other than financial instruments and deferred income tax assets)	1,194,318	2,037,232	200,485	1,259,929	21,021	427,916	5,140,901

4. Segment information (Continued)

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							<u>414,266</u>
Depreciation and amortisation	<u>(35,662)</u>	<u>(60,641)</u>	<u>(8,310)</u>	<u>(84,985)</u>	<u>(5,472)</u>	<u>(14,400)</u>	<u>(209,470)</u>
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	<u>297,923</u>	<u>411,416</u>	<u>—</u>	<u>—</u>	<u>37,341</u>	<u>—</u>	<u>746,680</u>
Segment liabilities	<u>745,374</u>	<u>908,912</u>	<u>1,242,292</u>	<u>874,421</u>	<u>332,245</u>	<u>8,708,671</u>	<u>12,811,915</u>
Additions to non-current assets (other than financial instruments and deferred income tax assets)	<u>418,947</u>	<u>1,979,052</u>	<u>14,828</u>	<u>1,264,089</u>	<u>136,186</u>	<u>51,045</u>	<u>3,864,147</u>

5. **Other income**

	Year ended 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income		
- Bank deposits	32,091	11,038
- Other receivables from third parties	4,434	7,502
- Other receivables from a joint venture	5,265	5,633
Recovery of other receivables	95,054	—
Government grants	111,334	78,979
Value-added tax refunds	58,265	49,220
Miscellaneous income	<u>3,123</u>	<u>8,017</u>
	<u><u>309,566</u></u>	<u><u>160,389</u></u>

6. **Other gains - net**

	Year ended 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Fair value gains on the remeasurement of a joint venture	51,830	—
Fair value gains on the remeasurement of an associate	6,123	—
Other (losses)/gains	<u>(599)</u>	<u>8,387</u>
	<u><u>57,354</u></u>	<u><u>8,387</u></u>

7. **Finance income and costs**

	Year ended 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
<i>Finance income</i>		
- Net exchange gains on financing activities	<u>—</u>	<u>(12,674)</u>
<i>Finance costs</i>		
- Borrowing costs	599,353	260,525
Less: amounts capitalised on qualifying assets	<u>(105,246)</u>	<u>(31,759)</u>
	494,107	228,766
- Unwinding of provision	10,086	4,050
- Net exchange losses on financing activities	<u>17,288</u>	<u>—</u>
	<u>521,481</u>	<u>232,816</u>
Finance costs-net	<u><u>521,481</u></u>	<u><u>220,142</u></u>

8. **Income tax expenses**

	Year ended 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
- Corporate income tax	<u>172,192</u>	<u>160,054</u>
Deferred income tax		
- Increase in deferred income tax assets	(44,169)	(66,187)
- Increase in deferred income tax liabilities	<u>30,221</u>	<u>8,601</u>
	<u><u>158,244</u></u>	<u><u>102,468</u></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.

8. Income tax expenses (Continued)

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% (2016: 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 2017 (2016: 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 2017 (2016: 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% for the year ended 31 December 2017 (2016: same).

9. Earnings per share

(a) Basic

The basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares issued during the years ended 31 December 2017 and 2016.

	Year ended 31 December	
	2017	2016
Profit attributable to the ordinary shareholders of the Company (RMB'000)	422,812	388,093
Weighted average number of ordinary shares in issue (thousands)	<u>1,193,213</u>	<u>1,193,213</u>
Basic earnings per share (RMB per share)	<u>0.354</u>	<u>0.325</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 2017 and 2016.

10. Dividends

At the Board of Directors meeting held on 26 March 2018, the Directors of the Company proposed a final dividend for the year ended 31 December 2017 of RMB0.13 per ordinary share amounting to approximately RMB155,118,000 (2016: 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 the consolidated financial statements for the year ended 31 December 2017 but will be reflected as dividends distribution for the year ending 31 December 2018.

The 2016 dividends were paid on 20 July 2017.

11. 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	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Receivables under service concession arrangements	5,111,148	2,891,228
Portion classified as current assets	<u>(52,928)</u>	<u>(31,082)</u>
Non-current portion	<u>5,058,220</u>	<u>2,860,146</u>

12. Trade and other receivables and prepayments

	As at 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables		
- Related parties	1,984,773	1,024,685
- Local governments	659,286	367,560
- Third parties	865,067	469,629
Less: provision for impairment	<u>(41,721)</u>	<u>(34,430)</u>
	<u>3,467,405</u>	<u>1,827,444</u>
Borrowings to a joint venture	—	482,378
Other receivables due from:		
- Related parties	31,412	6,403
- Third parties	889,206	543,081
Less: provision for impairment	<u>(7,562)</u>	<u>(6,877)</u>
	<u>913,056</u>	<u>1,024,985</u>
Total trade and other receivables	4,380,461	2,852,429
Less: non-current portion of other receivables	<u>(30,214)</u>	<u>(128,605)</u>
Current portion of trade and other receivables	<u>4,350,247</u>	<u>2,723,824</u>
Prepayments		
- Related parties	67,595	25,064
- Third parties	1,756,930	1,338,582
	<u>1,824,525</u>	<u>1,363,646</u>
Less: non-current portion of prepayments	<u>(1,695,626)</u>	<u>(1,230,108)</u>
Current portion of prepayments	<u>128,899</u>	<u>133,538</u>

(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	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	2,451,422	1,502,558
One to two years	803,928	158,404
Two to three years	101,300	130,108
Over three years	<u>152,476</u>	<u>70,804</u>
	<u>3,509,126</u>	<u>1,861,874</u>

13. Trade and other payables

	As at 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables:		
- Related parties	1,192,382	531,674
- Third parties	1,836,469	1,183,181
Notes payable	40,000	—
Other payables:		
- Related parties	82,562	210,553
- Third parties	1,056,272	729,578
Advances from customers	52,531	61,328
Staff welfare benefit payable	38,562	31,312
Other taxes payable	229,915	159,941
Less: non-current portion	<u>(1,272,984)</u>	<u>(49,055)</u>
Current portion	<u>3,255,709</u>	<u>2,858,512</u>

- (a) Trade payables are settled in accordance with agreed terms with suppliers.
- (b) At 31 December 2017 and 2016, the ageing analysis of the trade payables based on invoice date is as follows:

	As at 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	1,830,650	1,238,674
One to two years	757,182	266,666
Two to three years	213,277	142,570
Over three years	<u>227,742</u>	<u>66,945</u>
	<u>3,028,851</u>	<u>1,714,855</u>

14. **Borrowings**

	As at 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current		
Long-term bank borrowings		
- Secured	2,867,218	1,727,559
- Unsecured	<u>1,595,996</u>	<u>1,787,069</u>
	4,463,214	3,514,628
Corporate bonds and other borrowings		
- Unsecured	<u>4,886,208</u>	<u>2,174,926</u>
	<u>9,349,422</u>	<u>5,689,554</u>
Current		
Short-term bank borrowings		
- Unsecured	3,197,013	1,941,205
Current portion of long-term bank borrowings		
- Secured	455,044	102,280
- Unsecured	232,776	108,073
Current portion of corporate bonds and other borrowings		
- Unsecured	<u>553,741</u>	<u>457,367</u>
	<u>4,438,574</u>	<u>2,608,925</u>
Total	<u><u>13,787,996</u></u>	<u><u>8,298,479</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In recent years, with the introduction of several national policies that made a profound impact on the environmental protection industry, the environmental protection industry has ushered in a period of rapid development. In 2017, the 19th National Congress of the Communist Party of China clearly stated in its report that “We will create a market-based system for green technology innovation, develop green finance, and spur the development of energy-saving and environmental protection industries as well as clean production and clean energy industries.” Thus, currently, our country’s “determination of, effort put in and the effectiveness of ecological civilization construction are unprecedented, and the ecological environment has significantly improved.” The environmental protection industry provides reliable technology, equipment, engineering and service support for the construction of ecological civilization and environmental protection, and has made significant contributions to improving the ecological environment quality.

Prevention and control of water pollution is an important aspect of ecological civilization construction, and water pollution control is also one of the areas of which environmental pollution control was first introduced in China. During the “13th Five-Year Plan” period, China has continuously putting more attention on control of water pollution, and the control work has entered a stage of comprehensive and intensive implementation. At this stage, sufficient attention has been given to wastewater treatment across industrial, urban or rural area.

In the field of water treatment, the State Council issued the “13th Five-Year Plan for Ecological Environmental Protection” (《「十三五」生態環境保護規劃》) in November 2016, in which the regulations on pollution control in industrial parks are clearly set out: “The implementation of the change of deadline for enterprises in key industries to meet the emission standards, and the improvement of centralized wastewater treatment facilities in industrial parks”. In December 2016, the National Development and Reform Commission (國家發展和改革委員會) and the Ministry of Housing and Urban-Rural Development (住房和城鄉建設部) jointly issued the “13th Five-Year Plan for National Urban Wastewater Treatment and Recycling Facilities Construction” (《「十三五」全國城鎮污水處理及再生利用設施建設規劃》), which proposed by the end of 2020, constructed areas in cities at prefecture level and above shall basically achieve full collection and full treatment of wastewater, and those in county towns shall achieve no less than 85%. According to the above plan, during the “13th Five-Year Plan” period, the water treatment industry in China will exceed the market scale of RMB1 trillion, and the market has huge capacity and numerous

investment opportunities. The addition, upgrading and reconstruction market capacity of municipal wastewater reaches RMB193.8 billion, the municipal reclaimed water market capacity reaches RMB15.8 billion, and the market potential for sponge city construction reaches RMB400 billion.

In terms of solid waste treatment, the report of the 19th National Congress of the Communist Party proposed that it is necessary to “strengthen solid waste and garbage treatment”, and this is the first time that solid waste treatment was mentioned the report of National Congress of the Communist Party . This means that China has placed unprecedented emphasis to solid waste treatment has risen to a national strategy and has become an indispensable and important part of ecological civilization construction. In April 2017, 14 ministries, including the National Development and Reform Commission, jointly released the “Cyclic Development Leads Action” (《循環發展引領行動》), which has clarified the responsibility and target of China’s major waste recycling rate, comprehensive utilization rate of general industrial solid waste, comprehensive utilization rate of crop stalks, urban kitchen waste resource treatment rate and other indicators.

The year 2017 was the first year for the full implementation of the “13th Five-Year Plan” for eco-environmental protection in China. Driven by the newly promulgated national policies, enormous market opportunities and development potential will be brought to the future of the water and solid waste treatment industry. The Board expects that, the development, scale and growth of these industries will further expand and investors in the capital market will pay more attention to the environmental protection industry.

DEVELOPMENT STRATEGIES AND PROSPECT

In 2018, the Group will continue to uphold its strategy of becoming one of the leading municipal environment integrated service providers in the PRC. While adhering to the development of its water business, the Group will fully develop solid waste treatment business and focus on its key businesses such as wastewater treatment, water supply, solid waste treatment and relevant professional services, make use of market-oriented operation to allocate resources reasonably and maximize efficiency in order to build environmentally friendly cities. The Group will closely monitor and act in line with national strategies and industry trends, and actively formulate and adjust its strategic and business planning and investment plans while continuously improving its operation, technology and project management levels, consolidating its target markets and enhancing its competitive edge, so as to ensure that the Group will move forward in the ever-changing market environment, and become a well-known large-scale environmental protection integrated service provider in the PRC and overseas.

In order to ensure the smooth realization of the strategic objectives, the Group will continue to strengthen its work of “increasing revenue and reducing expenditure, reducing cost and increasing efficiency” in the future, and will set up cost centre, research and development centre and technical service centre in its organizational structure. The main responsibilities of the cost centre include unifying control and management of all costs and expenses of the Group in project construction, operation and operation management aspects. The research and development centre aims to enhance the innovation and research and development of the core technologies of the Group including technologies for waste gasification, sludge carbonization and mobile sludge treatment devices, and bring new drivers for profit growth to the Group. The construction of the technical service centre will provide effective technical support for the design and process commissioning of all water and solid waste treatment projects of the Group, and will provide a professional and systematic training and learning platform for project technicians.

In the meantime, the Group will actively seek external financing both in the PRC and overseas in 2018. Domestically, the Group will continue to explore diversified financing channels and gradually spread the financing entities over subsidiaries in regional centres across the PRC in an effort to leverage the advantage of the performance of financial markets in different regions, share the financing pressure of the headquarters and effectively reduce financing costs. As for overseas financing, an offshore financing platform comprising Yunnan Water (Hong Kong) Company Limited, the wholly-owned subsidiary of the Company, and a subsidiary in Singapore as a financial center will be set up, in order to open up financing channels in overseas debts markets in addition with bank borrowings and other offshore financial liabilities to support the overseas investments and construction projects of the Group.

In order to achieve sustainable development, the Group will pay close attention to the implementation of the “The Belt and Road” strategy and the significant opportunity of the PRC giving support to build Yunnan into a center radiating South Asia and Southeast Asia. By utilizing the advantages of the Company in capital and technology, the Group will further explore overseas blue ocean markets and form a strategic layout whereby Hong Kong would be an important base radiating countries (regions) including Thailand, Indonesia, Singapore, Malaysia, Australia and Taiwan. The Company will continuously seek investments in and the acquisition of well-established large-scale environmental protection business opportunities within the PRC and overseas with advanced technology.

BUSINESS REVIEW

The Group is one of the leading integrated service providers in the municipal environmental protection industry in China. The Group mainly adopts the BOT (“Build-Operate-Transfer”), BOO (“Build-Own-Operate”), TOT (“Transfer-Operate-Transfer”), TOO (“Transfer-Own-Operate”), BT (“Build and Transfer”), EPC (“Engineering-Procurement-Construction”), ROT (Rehabilitate-Operate-Transfer) and O&M (“Operation and Maintenance”) 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 2017, the Group’s water related projects had the total daily treatment capacity of approximately 4,712,700 tonnes, representing an increase of approximately 78.9% as compared to the total daily treatment capacity of 2,634,000 tonnes as at 31 December 2016. As at 31 December 2017, the Group’s solid waste treatment related projects had the total annual treatment capacity of approximately 2,211,000 tonnes, representing an increase of approximately 63.8% as compared to the total annual capacity of 1,350,000 tonnes as at 31 December 2016.

The Group has been closely following the national policies and actively searching opportunities brought upon by the Public-Private-Partnership (“PPP”) projects introduced by the Chinese government to advance the development of PPP. As at 31 December 2017, the Group had been awarded tenders of more than 10 PPP projects, for example the project for the construction of the third, fourth and sixth sluices on Chengdu reach (Jinma River) of Minjiang River and the comprehensive treatment of the black and odorous water in Wenjiang District, Chengdu City, Sichuan Province, the PRC, the project for the comprehensive utilization of water resources and integration of urban and rural sanitation in Luo Yuan County, Fujian Province, and the project for environment upgrade and ecological restoration works for Yanjin lake within Chishui river areas. The total investment amount of the above-mentioned PPP projects amounted to approximately RMB10 billion with business involving water treatment, solid waste treatment, watercourse comprehensive treatment, reservoir engineering and etc. Among which the total daily treatment capacity of the water supply project is approximately 180,000 tonnes, the total daily treatment capacity of the wastewater treatment project is approximately 10,000 tonnes, the total annual treatment capacity of the solid waste treatment project is approximately 318,000 tonnes.

Wastewater Treatment Projects

As at 31 December 2017, the Group had a total of 87 concession wastewater treatment projects under construction and in operation, including 5 BOO projects, 66 BOT projects, 2 TOO projects and 14 TOT projects, with total daily treatment capacity of approximately 2,439,000 tonnes, representing an addition of 18 BOT projects and 2 TOT projects year-on-year, and an increase in total daily treatment capacity of approximately 1,060,000 tonnes compared with the year ended 31 December 2016, representing a growth rate of approximately 76.8%.

As at 31 December 2017, 77 concession projects with total daily treatment capacity of approximately 2,184,000 tonnes had commenced commercial operation, representing an addition of 1 BOO project, 15 BOT projects and 3 TOT projects year-on-year which commenced commercial operation and an increase in total daily treatment capacity of approximately 1,060,000 tonnes compared with the year ended 31 December 2016. During the Reporting Period, the Group's effective wastewater treatment utilization rate was approximately 74.6%, and the average unit charge of wastewater treatment was approximately RMB1.31 per tonne.

As at 31 December 2017, 10 concession projects with total daily treatment capacity of approximately 255,000 tonnes had not commenced commercial operation, representing an addition of 3 BOT projects year-on-year. During the Reporting Period, 1 BOT project had commenced commercial operation with a total daily capacity of 30,000 tonnes.

Water Supply Projects

As at 31 December 2017, the Group had a total of 48 concession water supply projects under construction or in operation, including 13 BOO projects, 24 BOT projects and 11 TOT projects, with total daily capacity of approximately 1,687,000 tonnes, representing an addition of 15 BOT projects and 3 TOT projects year-on-year, and an increase in total daily capacity of approximately 671,000 tonnes compared with the year ended 31 December 2016, representing a growth rate of approximately 66.0%.

As at 31 December 2017, 32 concession projects with total daily capacity of approximately 1,285,000 tonnes had commenced commercial operation, representing an addition of 9 BOT projects, 1 BOO project and 2 TOT projects which commenced commercial operation year-on-year and an increase in total daily capacity of

approximately 610,000 tonnes compared with the year ended 31 December 2016. During the Reporting Period, the Group's effective water supply utilization rate was approximately 71.1%, and the average unit charge of water supply was approximately RMB2.39 per tonne.

As at 31 December 2017, 16 concession projects with total daily capacity of approximately 402,000 tonnes had not commenced commercial operation, representing an addition of 6 BOT projects and 1 TOT project year-on-year and an increase in total daily capacity of approximately 62,000 tonnes. During the Reporting Period, 1 BOO project with total daily capacity of 10,000 tonnes had commenced commercial operation.

Solid Waste Treatment Projects

As at 31 December 2017, the Group had 11 solid waste treatment projects with total annual treatment capacity of 1,747,000 tonnes, 8 of which with an annual treatment capacity of 1,168,000 tonnes had commenced commercial operation and 3 of them with an annual treatment capacity of 579,000 tonnes was under construction. As compared to 31 December 2016, 2 additional solid waste treatment projects commenced operation and 2 were under construction and the total annual treatment capacity increased by 761,000 tonnes. During the Reporting Period, the Group's effective solid waste treatment utilization rate was approximately 88.7%.

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 2017, the Group had a total of 11 BT projects, which were either under construction and/or completed, among which income of 10 BT projects were recognised during the Reporting Period.

During the Reporting Period, the Group had a total of 10 EPC projects, representing an addition of 3 EPC projects as compared with 31 December 2016.

The Group engages in the production, sales and installation of equipment for wastewater treatment, water supply, solid waste treatment and other infrastructure facilities. The major category of water related equipment in the Group's production is membrane. Most 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 2017, the Group had 32 O&M projects, including 1 solidwaste treatment project with annual capacity of approximately 146,000 tonnes, 1 water supply project with daily capacity of approximately 5,000 tonnes and 30 wastewater treatment projects of daily wastewater treatment capacity of approximately 391,700 tonnes, representing an addition of 7 wastewater treatment O&M project, and an increase in the total daily treatment capacity of approximately 173,000 tonnes as compared with 31 December 2016. During the Reporting Period, two O&M agreements which include 1 solidwaste treatment project with annual capacity of 219,000 tonnes and 1 wastewater treatment project with daily capacity of 15,000 tonnes were terminated.

The Group newly entered into investments of several PPP projects for integrated environmental protection industry during the Reporting Period. As at 31 December 2017, the Group had 8 PPP projects under construction.

FINANCIAL REVIEW

Results of Operation

During the Reporting Period, the Group recorded revenue of approximately RMB5,142.2 million, representing an increase of approximately 79.4% as compared with the year ended 31 December 2016. The Group realized a net profit of approximately RMB544.0 million, representing an increase of approximately 31.3% as compared with the year ended 31 December 2016. Profit attributable to the ordinary shareholders of the Company was approximately RMB422.8 million, representing an increase of approximately 8.9% as compared with 31 December 2016. Earnings per share for the year ended 31 December 2017 was approximately RMB0.354.

Revenue

Revenue of the Group increased from approximately RMB2,865.9 million for the year ended 31 December 2016 to approximately RMB5,142.2 million for the Reporting Period, representing an increase of approximately 79.4%.

In respect of the business segments of the Group, revenue from wastewater treatment tremendously increased by approximately 167.9% from approximately RMB628.4 million for the year ended 31 December 2016 to approximately RMB1,683.5 million for the Reporting Period. Revenue from water supply increased by approximately 86.8% from approximately RMB639.4 million for the year ended 31 December 2016 to approximately RMB1,194.2 million for the Reporting Period. Revenue from solid waste treatment increased by approximately 34.8% from RMB425.3 million for the year ended 31 December 2016 to approximately RMB573.5 million for the Reporting

Period. Revenue from construction and sales of equipment increased by approximately 6.0% from approximately RMB1,109.6 million for the year ended 31 December 2016 to approximately RMB1,175.8 million for the Reporting Period. Revenue from other business increased from approximately RMB63.2 million for the year ended 31 December 2016 to approximately RMB515.3 million for the Reporting Period.

The increase in revenue from the wastewater treatment segment was mainly attributable to (i) an increase in construction revenue generated by certain original and newly acquired wastewater treatment projects under construction and rehabilitation; and (ii) certain wastewater treatment projects newly acquired by the Group in 2017 which generated operating revenue during the Reporting Period.

The increase in revenue from the water supply segment was mainly attributable to (i) an increase in construction revenue generated by certain ongoing and newly acquired water supply projects under construction and rehabilitation; (ii) certain water supply projects newly acquired by the Group in 2017 which realized revenue during the Reporting Period; and (iii) certain water supply projects under commercial operation recorded an inspiring increase due to the increase of utilization rate and (iv) certain projects which acquired at the end of 2016 realized a full-year 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 2016 realized a full-year revenue during the Reporting Period; (ii) existing solid waste treatment projects recorded an increase in revenue which credit to the successful market exploration; and (iii) the unit price inflation is approved by local authority in certain province.

The increase in revenue from the construction and sales of equipment segment was mainly attributable to (i) the ongoing construction of BT projects; and (ii) an increase in sales of equipment and technical and consultancy services for construction projects during the Reporting Period.

The increase in revenue from other business segment was mainly attributable to investments and constructions of PPP projects which engage in urban water comprehensive treatment and other environmental protection businesses.

Cost of Sales

Cost of sales of the Group for the Reporting Period was approximately RMB3,837.5 million, representing an increase of approximately 93.2% as compared with approximately RMB1,986.4 million for the year ended 31 December 2016. The

increase was primarily due to (i) an increase in construction costs due to considerable construction of several wastewater treatment, water supply and PPP projects; (ii) the acquisitions of certain wastewater treatment, water supply and solid waste treatment projects under commercial operation in 2017, resulting in an increase in operating costs; and (iii) certain solid waste treatment projects acquired at the end of 2016 achieved full-year operation in 2017.

Gross Profit Margin

For the Reporting Period, gross profit margin of the Group was approximately 25.4%, representing a decrease of approximately 17.3% as compared with approximately 30.7% for the year ended 31 December 2016. The decrease was primarily due to (i) the gross profit margins of certain newly acquired water supply and wastewater treatment projects being slightly lower than the margins of the existing projects; (ii) the proportion of construction services of wastewater, water supply and other PPP projects recorded a significant increase, resulting in lower overall gross profit margin; and (iii) certain newly-operated BOO projects recorded a lower gross profit margin as a result of a relatively higher depreciation and other fixed costs against a lower initial unit price and utilization rate.

Other Income

For the Reporting Period, the Group recorded other income of approximately RMB309.6 million in aggregate as compared with approximately RMB160.4 million for the year ended 31 December 2016, representing an increase of approximately 93.0%. The increase in other income was mainly attributable to (i) the recovery of certain other receivables which had been considered as unrecoverable in previous years; and (ii) an increase in government grants during the Reporting Period.

Other Gains - net

For the Reporting Period, the Group recorded other net gains of approximately RMB57.4 million, representing a substantial increase as compared with approximately RMB8.4 million for the year ended 31 December 2016. The increase was mainly attributable to fair value gains on the revaluation of a joint venture and an associate.

Selling Expenses

For the Reporting Period, selling expenses of the Group was approximately RMB 39.5 million, representing an increase of approximately 73.2% from approximately

RMB22.8 million for the year ended 31 December 2016. The increase was due to (i) an increase in employee benefit expenses in solid waste treatment segment for market expansion; and (ii) selling expenses from subsidiaries acquired at the end of 2016 achieved full-year operation in 2017.

Administrative Expenses

Administrative expenses of the Group increased by RMB100.5 million from approximately RMB331.0 million for the year ended 31 December 2016 to approximately RMB431.5 million for the Reporting Period, representing an increase of approximately 30.4%. Increase in administrative expenses was primarily due to the expansion of the Group's business by acquisitions, which resulted in an increase in expenses such as employee remuneration expenses, depreciation and amortization costs, office expenses and etc.

Finance Costs - net

Net finance costs increased by RMB301.4 million from approximately RMB220.1 million for the year ended 31 December 2016 to approximately RMB521.5 million for the Reporting Period, representing an increase of approximately 136.9%. The increase in net finance costs was primarily due to increase in bank and other borrowings and the issuance of multiple debt securities to support the Group's business expansion and operation.

The average interest rate on borrowings of the Group for the Reporting Period was approximately 4.3% per annum, representing a decrease as compared with approximately 4.7% per annum for the year ended 31 December 2016 due to the diversified financing channels.

Profit Before Income Tax

As a result of the above factors, the Group recorded profit before income tax of approximately RMB702.2 million for the Reporting Period, representing an increase of approximately 35.9% as compared with approximately RMB516.7 million recorded for the year ended 31 December 2016.

Income Tax Expenses

Income tax expenses increased by RMB55.7 million from approximately RMB102.5 million for the year ended 31 December 2016 to approximately RMB158.2 million for the Reporting Period, representing an increase of approximately 54.3%. The weighted average effective tax rate was approximately 20.1% (2016: 19.1%). 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 RMB129.7 million from approximately RMB414.3 million for the year ended 31 December 2016 to approximately RMB544.0 million for the Reporting Period, representing an increase of approximately 31.3%. Net profit margin decreased from approximately 14.5% for the year ended 31 December 2016 to approximately 10.6% for the Reporting Period.

Receivables under Service Concession Arrangements

The Group's receivables under service concession arrangements increased by RMB2,219.9 million from approximately RMB2,891.2 million as at 31 December 2016 to approximately RMB5,111.1 million as at 31 December 2017, representing an increase of approximately 76.8%. Such increase was primarily due to (i) the receivables of the newly acquired concession projects during the Reporting Period; and (ii) investments on PPP projects under construction which led to an increase in receivables under the service concession arrangements.

Trade and Other Receivables and Prepayments

The Group's trade and other receivables and prepayments increased by RMB1,988.9 million from approximately RMB4,216.1 million as at 31 December 2016 to approximately RMB6,205.0 million as at 31 December 2017, representing an increase of approximately 47.2%. Such increase was primarily due to (i) an increase in trade and other receivables and prepayments from the newly acquired projects during the Reporting Period; (ii) a continuous increase in scale of sales of equipment and professional services in environmental protection industry; and (iii) an increase in prepayments for ongoing construction projects.

Cash and Cash Equivalents

The Group's total cash balance decreased by RMB1,233.0 million from approximately RMB4,129.9 million as at 31 December 2016 to approximately RMB2,896.9 million as at 31 December 2017, representing a decrease of approximately 29.9%. Such decrease was primarily due to the payment of acquisition consideration and repayments of matured borrowings.

Trade and Other Payables

The Group's trade and other payables increased by RMB1,621.1 million from approximately RMB2,907.6 million as at 31 December 2016 to approximately RMB4,528.7 million as at 31 December 2017, representing an increase of approximately 55.8%. Such increase was primarily due to (i) the considerable

construction investments in newly acquired PPP and ongoing BOT projects during the Reporting Period; (ii) the increase in trade and other payables of the newly acquired subsidiaries during the Reporting Period; and (iii) the increasing procurement for EPC and of equipment sales and other operating business.

Borrowings

As at 31 December 2017, the Group had borrowings of approximately RMB13,788.0 million (31 December 2016: approximately RMB8,298.5 million).

As at 31 December 2017, the Group had unsecured borrowings of approximately RMB10,465.7 million (31 December 2016: approximately RMB6,468.7 million), and secured borrowings of approximately RMB3,322.3 million (31 December 2016: approximately RMB1,829.8 million).

Perpetual capital instruments

During the Reporting Period, the Company issued perpetual capital instruments with an aggregate proceeds of RMB1,200.0 million to a financial institution in the PRC (for the year ended 31 December 2016: RMB2,000.0 million); and redeemed perpetual capital instruments amounted to RMB2,000.0 million from a financial institution in the PRC (for the year ended 31 December 2016: nil). The perpetual capital instruments have no maturity date, and the payments of distribution can be deferred at the discretion of the Company. The profit attributable to the holders of perpetual capital instruments for the year ended 31 December 2017 was approximately RMB85.4 million (for the year ended 31 December 2016: nil).

Pledge of Assets

As at 31 December 2017, the Group had borrowings of approximately RMB1,633.4 million which were secured by the Group's land use right, shares of subsidiaries (31 December 2016: borrowings of approximately RMB688.5 million were secured by the Group's land use rights, shares of a subsidiary and a joint venture). As at 31 December 2017, the Group had borrowings of approximately RMB1,688.9 million (31 December 2016: approximately RMB1,141.3 million) which were secured by right of charges from concession projects of water supply, wastewater treatment, solid waste treatment and BT projects.

Capital Commitments

The Group's capital commitments increased by RMB3,266.5 million from approximately RMB4,683.2 million as at 31 December 2016 to approximately RMB7,949.7 million as at 31 December 2017, representing an increase of approximately 69.7%. Such increase was primarily due to the Group's increased investments in PPP projects.

Gearing Ratio

The Group's gearing ratio (calculated as net debt divided by total capital) increased from approximately 36.52% as at 31 December 2016 to approximately 61.96% as at 31 December 2017. 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 2017, the Group has utilized proceeds of approximately HK\$1,736 million, and unutilized proceeds amounted to approximately HK\$3 million.

Employees and Remuneration Policy

As at 31 December 2017, the Group employed 5,302 employees (31 December 2016: 3,666). For the year ended 31 December 2017, staff cost was approximately RMB411.4 million (for the year ended 31 December 2016: RMB264.3 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 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 31 December 2017, the Group did not have any significant contingent liabilities.

Final Dividend

The Board has resolved to declare a final dividend of RMB0.13 per share (tax included) for the year ended 31 December 2017. 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 27 July 2018.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

- On 28 September 2017, the Company together with Xiamen Anneng Construction Co., Ltd.* (廈門安能建設有限公司) and Zhongnan Engineering Corporation Limited of PowerChina* (中國電建集團中南勘測設計研究院有限公司) were formally awarded a PPP project in relation to the third, fourth and sixth sluices on Chengdu reach (Jinma River) of Minjiang River and comprehensive treatment of the black and odorous water in Wenjiang District, Chengdu City, Sichuan Province, the PRC through public tender by the Water Affairs Bureau of Wenjiang District* (溫江區水務局) of Chengdu City authorized by the People’s Government of Chengdu City, Sichuan Province, the PRC. The total estimated investment amount of the project is RMB780,000,000.
- On 26 July 2017, the Company entered into a joint venture agreement with Renhuai Urban Development Construction and Investment Operation Co., Ltd.* (仁懷市城市開發建設投資經營有限責任公司) in relation to the establishment of Guizhou Renhuai Yunshui Environment Co., Ltd.* (貴州仁懷雲水環境有限公司) as a joint venture company in Renhuai, Guizhou Province, the PRC, with a total investment amount of RMB522,838,800.

- On 27 June 2017, the Company was formally awarded a PPP project, “Environment Upgrade and Ecological Restoration Works for Yanjin Lake within Chishui River Areas” through public tender by Renhuai City Environmental Protection Bureau* (仁懷市環境保護局) authorized by the People’s Government of Renhuai City, Guizhou Province, the PRC. The total estimated investment amount of the project is approximately RMB2,600,000,000.
- On 12 May 2017, the Company together with Fujian Dongfei Environmental Group Co., Ltd.* (福建東飛環境集團有限公司) and Xiamen Anneng Construction Co., Ltd.* (廈門安能建設有限公司) were formally awarded the comprehensive utilization of water resources and integration of urban and rural sanitation PPP project in Luoyuan County, Fujian Province, the PRC through public tender by the Water Conservancy Bureau of Luoyuan County* (羅源縣水利局) authorized by the People’s Government of Luoyuan County, Fujian Province, the PRC. The total estimated investment amount of the project is RMB1,335,000,000.
- On 12 May 2017, Yunnan Solid Waste Investment Co., Ltd. (雲南固廢投資有限公司) (a non-wholly owned subsidiary of the Company, as purchaser) entered into an equity transfer agreement with Zhongshan Chuangzhi Building Materials Technology Co., Ltd.* (中山市創志建材科技有限公司) (as vendor) in relation to the acquisition of 90% equity interest of Sanming Jinliya Environmental Protection Technological Investment Co., Ltd.* (三明市金利亞環保科技投資有限公司) at a consideration of RMB276,520,900 (subject to adjustment).
- On 13 April 2017, Yunnan Water (Hong Kong) Company Limited (a wholly owned subsidiary of the Company, as purchaser) entered into a share purchase agreement with Ms. Zhang Hui (as vendor) in relation to the acquisition of 97% equity interest in Pan Asia International (Sishui) Co., Limited at a consideration of RMB376,400,000.
- On 15 March 2017, Yunnan Water (Hong Kong) Company Limited and the Company (as purchaser) completed the acquisition of the remaining 50% equity interest in Galaxy NewSpring Pte.Ltd.at a consideration of US\$136,500,000 against Hyflux Asset Management Pte.Ltd. and Hyflux Ltd (as vendor). The sale and purchase agreement was agreed and signed on 26 October 2016.

- On 25 January 2017, the Company entered into a joint venture agreement with Yunnan Sidu Investment Management Co., Ltd.* (雲南斯度投資管理有限公司) 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.

For details of the above-mentioned significant investments and acquisitions, please refer to the announcements published by the Company on 28 September 2017, 26 July 2017, 27 June 2017, 12 May 2017, 13 April 2017, 15 March 2017 and 25 January 2017, respectively.

Subsequent Events:

- 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 the PPP project in relation to the construction of wastewater treatment facilities in the entire Xu Wen County in Zhanjiang City, Guangdong Province, the PRC through public tender by the Housing and Urban-Rural Development Bureau of Xu Wen County (徐聞縣住房和城鄉建設局) authorized by the People's Government of Xu Wen County, Zhanjiang City, Guangdong Province, the PRC. The total estimated investment amount of the project is approximately RMB1,249,740,000.
- 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 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. 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 12 January 2018, the Board announced that the Company's principal place of business in Hong Kong has been changed to Suite 3110-11, 31/F, Tower 1, The Gateway, Harbour City, 21 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong with effect from 12 January 2018.

- On 11 January 2018, the Company together with Yunnan Construction Investment Holding Group Co., Ltd (“YCIH”) No.5 Construction Co., Ltd.* (雲南建設第五建設有限公司) were formally awarded a PPP project in relation to Qinyang urban water comprehensive treatment works in Qinyang City, Henan Province, the PRC through public tender by Qinyang Housing and Urban-Rural Development Bureau (沁陽市住房和城鄉建設局) authorized by the People’s Government of Qinyang City. The total estimated investment amount of the Project is approximately RMB1,767,973,000.
- On 5 January 2018, the 2018 first extraordinary meeting of the Company approved the registration and the issuance of the Corporate Onshore and Offshore Debt Financing Instruments with a size of not more than RMB2 billion.
- On 5 January 2018, the 2018 first extraordinary meeting of the Company passed the resolution regarding the appointment of Ms. Zhang Ling as an independent Supervisor of the second session of the Supervising Committee, while the term of office shall be from the date of passing the resolution in the EGM until the expiry of the term of office of the second session of the Supervisory Committee.

For details of the above-mentioned subsequent events, please refer to the announcements published by the Company on 21 March 2018, 13 February 2018, 24 January 2018, 12 January 2018, 11 January 2018 and 5 January 2018, 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 ESG report represents our contribution to sustainable development during the Reporting Period, and covers the major environmental and social policies, environmental indicators of our Group, measures adopted for reducing emissions by our Group and the relevant achievements of such policies.

The ESG report will be included in the 2017 annual report of the Company to be despatched to the Company’s shareholders in due course and published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (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 three independent non-executive Directors, Mr. Kwok For Chi (as chairman), 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 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. 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 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 the members of the second session of the Board.

REMUNERATION COMMITTEE

The Remuneration Committee 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; 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. Dai Richeng (as chairman), three independent non-executive Directors, Mr. Kwok For Chi, Mr. Hu Song and Mr. Ma Shihao, 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 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 in the aforementioned systems and 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.

PARTICULARS OF DIRECTORS AND SUPERVISORS

Changes in particulars of directors and supervisors 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 2016 are set out as follows:

Mr. Xu Lei resigned as a non-executive Director, the Chairman and the chairman and member of the Nomination Committee with effect from 24 February 2017. For further details, please refer to the announcement published by the Company on 24 February 2017.

Due to expiry of their terms of office, on 28 August 2017, Mr. Jiao Jun retired as a non-executive Director; each of Mr. Yu Long, Mr. Liu Xujun and Mr. Huang Yunjian retired as an executive Director; Mr. Ren Gangfeng retired as an independent non-executive Director. Ms. Wang Shuqin retired as the Chairman of Supervisory Committee and a Shareholder representative Supervisor. Ms. Li Bo retired as a Supervisor. Mr. Cao Jinwen retired as an independent Supervisor.

At the 2017 first extraordinary general meeting of the Company and the first meeting of the second session of the Board convened on 28 August 2017, Mr. Dai Richeng and Mr. Yang Fang were appointed as executive Directors; Mr. Yang Tao, Mr. He Yuanping, Ms. Li Bo and Mr. Feng Zhuangzhi were appointed as non-executive Directors; Mr. Kwok For Chi, Mr. Hu Song and Mr. Ma Shihao were appointed as independent non-executive Directors. Mr. Yang Tao and Mr. Dai Richeng were also elected as the Chairman and vice-chairman of the Board, respectively. Mr. Long Limin and Mr. Zhu Zhen were appointed as Shareholder representative Supervisors; and Ms. Xu Cuifen (“**Ms. Xu**”) was appointed as an independent Supervisor. On 15 November 2017, the Supervisory Committee received a resignation letter from Ms. Xu stating that due to her other work commitments, Ms. Xu resigned as the independent Supervisor. Subsequently, at the 2018 first extraordinary general meeting of the Company convened on 5 January 2018, it was considered and approved that Ms. Zhang Ling was appointed as an independent Supervisor. The terms of office of the above personnel shall be from the date of the extraordinary general meeting until the expiry of the term of office of the second session of the the Board / Supervisory Committee. For further details, please refer to the announcements published by the Company on 28 August 2017 and 5 January 2018.

The composition of new session of each of the audit committee, remuneration committee, nomination committee and compliance committee of the Company is as follows. For further details, please refer to the announcements published by the Company on 28 August 2017.

Audit Committee

Mr. Kwok For Chi (Chairman)
Mr. Hu Song
Mr. Ma Shihao

Remuneration Committee

Mr. Hu Song (Chairman)
Mr. Yang Fang
Mr. Ma Shihao

Nomination Committee

Mr. Yang Tao (Chairman)
Mr. Hu Song
Mr. Ma Shihao

Compliance Committee

Mr. Dai Richeng (Chairman)
Mr. Yang Fang
Mr. Kwok For Chi
Mr. Hu Song
Mr. Ma Shihao
Ms. Yang Chuanyun (Supervisor)

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 2016.

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) and the website of the Company (www.yunnanwater.cn). The 2017 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 2017.

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

Kunming, the PRC
26 March 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. Kwok For Chi, Mr. Hu Song and Mr. Ma Shihao.

** For identification purposes only*