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 2019

## FINANCIAL HIGHLIGHTS

— Revenue was approximately RMB2,593.8 million, representing an increase of approximately 7.1% over the corresponding period of last year.

— Gross profit was approximately RMB738.3 million, representing an increase of approximately 26.9% over the corresponding period of last year.

— Profit attributable to ordinary shareholders of the Company was approximately RMB59.3 million, representing a decrease of approximately 24.5% over the corresponding period of last year.

— Basic earnings per share was approximately RMB0.05, representing a decrease of approximately 24.5% over the corresponding period of last year.

— The Board does not recommend any distribution of interim dividend for the six months ended 30 June 2019.

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 2019 (the "**Reporting Period**").

# I. FINANCIAL INFORMATION OF THE GROUP

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

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2019** | 2018 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| | | **(Unaudited)** | (Unaudited) |
| Revenue | *4* | **2,593,757** | 2,422,877 |
| Cost of sales | | **(1,855,468)** | (1,841,011) |
| **Gross profit** | | **738,289** | 581,866 |
| Other income | | **34,326** | 51,715 |
| Other (losses)/gains — net | | **(2,938)** | 2,401 |
| Selling expenses | | **(20,905)** | (21,260) |
| Administrative expenses | | **(191,774)** | (177,196) |
| Impairment losses on financial assets | | **(13,872)** | — |
| **Operating profit** | | **543,126** | 437,526 |
| Finance income | *5* | **22,179** | 10,610 |
| Finance costs | *5* | **(424,890)** | (305,631) |
| Finance costs — net | | **(402,711)** | (295,021) |
| Share of profit of investments accounted for using the equity method | | **15,499** | 18,179 |
| **Profit before income tax** | | **155,914** | 160,684 |
| Income tax expense | *6* | **(34,874)** | (33,589) |
| **Profit for the period** | | **121,040** | 127,095 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified to profit or loss* | | | |
| — Currency translation differences | | **33,490** | (49,817) |
| **Total comprehensive income for the period — net of tax** | | **154,530** | 77,278 |
| **Profit attributable to:** | | | |
| — Ordinary shareholders of the Company | | **59,306** | 78,493 |
| — Holders of perpetual capital instruments | | **42,000** | 41,195 |
| — Non-controlling interests | | **19,734** | 7,407 |
| | | **121,040** | 127,095 |

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2019** | 2018 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| | | **(Unaudited)** | (Unaudited) |
| **Total comprehensive income attributable to:** | | | |
| — Ordinary shareholders of the Company | | **92,796** | 28,676 |
| — Holders of perpetual capital instruments | | **42,000** | 41,195 |
| — Non-controlling interests | | **19,734** | 7,407 |
| | | **154,530** | 77,278 |
| **Earnings per share for profit attributable to ordinary shareholders of the Company (expressed in RMB per share)** | | | |
| — Basic and diluted | *7* | **0.050** | 0.066 |

## Interim condensed consolidated balance sheet

| | Note | **30 June 2019** *RMB'000* **(Unaudited)** | 31 December 2018 *RMB'000* (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **2,941,672** | 2,622,288 |
| Investment properties | | **25,495** | 25,779 |
| Right-of-use assets | | **234,078** | — |
| Land use rights | | **—** | 182,831 |
| Receivables under service concession arrangements | *9* | **4,549,044** | 4,165,248 |
| Contract assets | | **4,731,050** | 4,277,955 |
| Intangible assets | | **10,558,313** | 10,153,155 |
| Investments accounted for using the equity method | | **998,591** | 661,042 |
| Financial asset at fair value through other comprehensive income | | **4,675** | 4,675 |
| Trade and other receivables | *10* | **33,095** | 13,771 |
| Prepayments | *10* | **1,292,687** | 942,875 |
| Deferred income tax assets | | **455,880** | 314,132 |
| | | **25,824,580** | 23,363,751 |
| **Current assets** | | | |
| Receivables under service concession arrangements | *9* | **60,175** | 57,852 |
| Inventories | | **84,523** | 102,089 |
| Contract assets | | **559,448** | 338,197 |
| Trade and other receivables | *10* | **6,317,369** | 5,763,860 |
| Prepayments | *10* | **499,172** | 695,498 |
| Restricted cash | | **183,893** | 123,043 |
| Cash and cash equivalents | | **2,845,068** | 2,214,352 |
| Financial assets at fair value through profit or loss | | **—** | 4,320 |
| Derivative financial instruments | | **—** | 10,884 |
| | | **10,549,648** | 9,310,095 |
| **Total assets** | | **36,374,228** | 32,673,846 |

| | Note | 30 June 2019 RMB'000 (Unaudited) | 31 December 2018 RMB'000 (Audited) |
|---|---|---|---|
| **EQUITY** | | | |
| **Equity attributable to ordinary shareholders of the Company** | | | |
| Share capital | | **1,193,213** | 1,193,213 |
| Other reserves | | **2,230,505** | 2,197,015 |
| Retained earnings | | **1,046,918** | 1,166,594 |
| | | **4,470,636** | 4,556,822 |
| Perpetual capital instruments | | **2,200,000** | 1,200,000 |
| Non-controlling interests | | **1,189,436** | 1,177,450 |
| **Total equity** | | **7,860,072** | 6,934,272 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | *12* | **12,756,468** | 11,178,992 |
| Trade and other payables | *11* | **3,150,219** | 3,257,835 |
| Lease liabilities | | **15,614** | — |
| Deferred income | | **698,742** | 692,361 |
| Deferred income tax liabilities | | **1,152,694** | 1,048,241 |
| Provision | | **348,371** | 349,734 |
| | | **18,122,108** | 16,527,163 |
| **Current liabilities** | | | |
| Borrowings | *12* | **6,762,949** | 5,755,534 |
| Trade and other payables | *11* | **3,163,331** | 3,017,220 |
| Lease liabilities | | **10,877** | — |
| Contract liabilities | | **144,293** | 119,409 |
| Current income tax liabilities | | **309,220** | 317,748 |
| Derivative financial instruments | | **1,378** | 2,500 |
| | | **10,392,048** | 9,212,411 |
| **Total liabilities** | | **28,514,156** | 25,739,574 |
| **Total equity and liabilities** | | **36,374,228** | 32,673,846 |

# II. NOTES TO THE FINANCIAL INFORMATION

**1. General information**

Yunnan Water Investment Co., Limited 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 2019, the total registered capital of the Company was RMB1,193,213,000. The address of its registered office is Yunnan Water 2089 Haiyuan North Road, Gaoxin District, Kunming, Yunnan Province, the PRC.

The Company is an investment holding company. The Company and its subsidiaries 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 2019 (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 28 August 2019.

**2. Basis of preparation and accounting policies**

***(a) Basis of preparation***

This Interim Financial Information for the six months ended 30 June 2019 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 2018, 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 2018, 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 2019:

| | |
|---|---|
| Amendments to HKFRS 9 | Prepayment features with negative compensation |
| Amendments to HKAS 19 | Plan amendment, curtailment or settlement |
| HKFRS 16 | Leases |
| HK (IFRIC) 23 | Uncertainty over income tax treatments |
| HKAS 28 (Amendment) | Long-term interests in associates and joint ventures |
| Improvements to HKFRSs | Annual improvements to HKFRSs 2015–2017 cycle |

The impact of the adoption of HKFRS 16 and its new accounting policies are disclosed in note 3 below. The other standards, 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.

## 2. Basis of preparation and accounting policies (Continued)

### *(b) Accounting policies (Continued)*

*(ii) Impact of amendments to standards issued but not yet applied by the entity*

| | |
|---|---|
| HKAS 1 and HKAS 8 (Amendments) | Definition of Material[1] |
| HKFRS 3 (Amendments) | Definition of a Business[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 2020.*
2. *Effective date to be determined.*

The impact of amendments to standards 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 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in note 3(b) below.

The Group has adopted HKFRS 16 from its mandatory adoption date of 1 January 2019. The Group has applied the simplified transition approach and has not restated comparative amounts for the 2018 reporting period. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

### *(a) Adjustments recognised on adoption of HKFRS 16*

*No significant impact on the Group's net profit after tax for the six months ended 30 June 2019 as a result of adoption of HKFRS 16.*

*(i) The change in accounting policy affected the following items in the balance sheet on 1 January 2019:*

- right-of-use assets — increase by RMB209,804,000, which were related to leases of land use rights, offices and warehouses;

- land use rights — decrease by RMB182,831,000, which were related to leases of land use rights and reclassified to right-of-use assets; and

- lease liabilities — increase by RMB26,973,000, which were related to leases of offices and warehouses as details below.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases of offices and warehouses which had previously been classified as "operating leases" under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

3. **Changes in accounting policies (Continued)**

*(a) Adjustments recognised on adoption of HKFRS 16 (Continued)*

*(i) The change in accounting policy affected the following items in the balance sheet on 1 January 2019: (Continued)*

| | *RMB'000* |
|---|---|
| **Operating lease commitments disclosed as at 31 December 2018** | **32,733** |
| Discounted using the lessee's incremental borrowing rate of the date of initial application | **29,934** |
| Less: short-term leases and low-value leases recognised on a straight-line basis as expense | **(2,961)** |
| **Lease liability recognised as at 1 January 2019** | **26,973** |
| Of which are: | |
| Current lease liabilities | **11,154** |
| Non-current lease liabilities | **15,819** |
| | **26,973** |

Under the simplified transition approach, the associated right-of-use assets were measured at the amount equal to the lease liabilities on adoption, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

*(ii) In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:*

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) 4 Determining whether an Arrangement contains a Lease.

*(b) The Group's leasing activities and how these are accounted for*

The Group leases land use rights on long-term contracts and offices and warehouses on both short-term and long-term contracts.

Land use rights represent prepaid operating lease payments for land less accumulated amortisation and any impairment losses. Amortisation is calculated using the straight-line method to allocate the prepaid operating lease payments for land over the remaining lease term or the operating period, whichever is shorter. It is consistent with that of the annual financial statements for the year ended 31 December 2018.

## 3. Changes in accounting policies (Continued)

### *(b) The Group's leasing activities and how these are accounted for (Continued)*

Rental contracts for offices and warehouses are typically made for fixed periods of 1 to 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. Until the 2018 financial year, leases of offices and warehouses were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and restoration costs.
- restoration costs.

Right-of-use assets consist of land use rights and leasing of offices and warehouses.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

## 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 segments.

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.

4. **Segment information (Continued)**

(i) Segment results for the six months ended 30 June 2019 are as follows:

**Six months ended 30 June 2019:**

| | 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* |
|---|---|---|---|---|---|---|---|
| Total segment revenue | 973,816 | 667,149 | 497,475 | 646,524 | 28,020 | — | 2,812,984 |
| Inter-segment revenue | — | — | (219,227) | — | — | — | (219,227) |
| Revenue from external customers | 973,816 | 667,149 | 278,248 | 646,524 | 28,020 | — | 2,593,757 |
| Timing of revenue recognition | | | | | | | |
| — At a point in time | — | 304,335 | 159,342 | — | — | — | 463,677 |
| — Over time | 973,816 | 362,814 | 118,906 | 646,524 | 28,020 | — | 2,130,080 |
| Gross profit | 367,247 | 112,964 | 117,729 | 132,000 | 8,349 | — | 738,289 |
| Other income | | | | | | | 34,326 |
| Other losses — net | | | | | | | (2,938) |
| Selling expenses | | | | | | | (20,905) |
| Administrative expenses | | | | | | | (191,774) |
| Impairment losses on financial assets | | | | | | | (13,872) |
| Finance costs — net | | | | | | | (402,711) |
| Share of (losses)/profits of investments accounted for using the equity method — net | 4,181 | 1,647 | 2,510 | 14,925 | — | (7,764) | 15,499 |
| Profit before income tax | | | | | | | 155,914 |
| Income tax expense | | | | | | | (34,874) |
| Profit for the period | | | | | | | 121,040 |
| Depreciation and amortisation | (64,764) | (81,016) | (5,668) | (86,208) | (5,412) | (12,746) | (255,814) |

## 4. Segment information (Continued)

(i) Segment results for the six months ended 30 June 2019 are as follows: (Continued)

**Six months ended 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* |
|---|---|---|---|---|---|---|---|
| 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) |

## 4. Segment information (Continued)

(ii) Segment assets and liabilities as at 30 June 2019 are as follows:

**As at 30 June 2019:**

| | 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 | **13,435,668** | **6,830,752** | **4,897,256** | **6,492,536** | **960,975** | **3,757,041** | **36,374,228** |
| Segment assets include: Investments accounted for using the equity method | **209,901** | **43,013** | **37,227** | **424,417** | **4,534** | **279,499** | **998,591** |
| Segment liabilities | **5,313,928** | **1,263,091** | **1,724,392** | **1,550,043** | **1,140,051** | **17,522,651** | **28,514,156** |

**As at 31 December 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 | 11,877,411 | 6,761,381 | 4,592,414 | 5,485,113 | 960,690 | 2,996,837 | 32,673,846 |
| Segment assets include: Investments accounted for using the equity method | 203,671 | 328,628 | 34,717 | 89,492 | 4,534 | — | 661,042 |
| Segment liabilities | 4,082,170 | 1,183,919 | 1,887,852 | 1,261,995 | 1,171,977 | 16,151,661 | 25,739,574 |

## 5. Finance costs — net

| | Six months ended 30 June | |
|---|---|---|
| | **2019** *RMB'000* | 2018 *RMB'000* |
| Finance income | | |
| — Miscellaneous income | **11,995** | 10,610 |
| — Net exchange gains on financing activities | **10,184** | — |
| | **22,179** | 10,610 |
| Finance costs | | |
| — Borrowing costs | **(468,031)** | (355,871) |
| Less: amounts capitalised on qualifying assets | **49,189** | 56,801 |
| | **(418,842)** | (299,070) |
| — Unwinding of provision | **(6,048)** | (5,466) |
| — Net exchange losses on financing activities | **—** | (1,095) |
| | **(424,890)** | (305,631) |
| Finance costs — net | **(402,711)** | (295,021) |

## 6. Income tax expense

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| Current income tax | | |
| — Corporate income tax | **72,169** | 93,372 |
| Deferred income tax | | |
| — Corporate income tax | **(37,295)** | (59,783) |
| | **34,874** | 33,589 |

## 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 2019.

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| Profit attributable to the ordinary shareholders of the Company (*RMB'000*) | **59,306** | 78,493 |
| Weighted average numbers of ordinary shares in issue (*thousands*) | **1,193,213** | 1,193,213 |
| Basic earnings per share (*RMB per share*) | **0.050** | 0.066 |

### *(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 2019 (six months ended 30 June 2018: same).

## 8. Dividends

Pursuant to the resolution of the Company's Annual General Meeting held on 13 June 2019, the Company has declared 2018 dividends of RMB178,982,000 (2017 dividends: RMB155,118,000). The 2018 dividends were paid in July 2019.

No interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: 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 |
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| Receivables under service concession arrangements | **4,609,219** | 4,223,100 |
| Less: portion classified as current assets | **(60,175)** | (57,852) |
| Non-current portion | **4,549,044** | 4,165,248 |

9. **Receivables under service concession arrangements (Continued)**

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.

10. **Trade and other receivables and prepayments**

| | As at | |
|---|---|---|
| | **30 June 2019** | 31 December 2018 |
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | | |
| — Related parties | **2,618,038** | 2,575,260 |
| — Local governments | **928,233** | 824,240 |
| — Third parties | **1,224,907** | 1,155,422 |
| Less: provision for impairment | **(67,434)** | (59,986) |
| | **4,703,744** | 4,494,936 |
| Other receivables | | |
| — Related parties | **35,008** | 31,921 |
| — Third parties | **1,622,120** | 1,259,880 |
| Less: provision for impairment | **(10,408)** | (9,106) |
| | **1,646,720** | 1,282,695 |
| Total trade and other receivables | **6,350,464** | 5,777,631 |
| Less: non-current portion of other receivables | **(33,095)** | (13,771) |
| Current portion of trade and other receivables | **6,317,369** | 5,763,860 |
| Prepayments | | |
| — Related parties | **477,331** | 161,135 |
| — Third parties | **1,314,528** | 1,477,238 |
| | **1,791,859** | 1,638,373 |
| Less: non-current portion of prepayments | **(1,292,687)** | (942,875) |
| Current portion of prepayments | **499,172** | 695,498 |

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 2019** | 31 December 2018 |
| | ***RMB'000*** | *RMB'000* |
| Within one year | **2,373,586** | 2,813,369 |
| Over one year | **2,397,592** | 1,741,553 |
| | **4,771,178** | 4,554,922 |

## 11. Trade and other payables

| | As at 30 June 2019 RMB'000 | 31 December 2018 RMB'000 |
|---|---|---|
| Trade payables | | |
| — Related parties | **1,260,137** | 1,542,830 |
| —Third parties | **3,120,324** | 3,287,340 |
| Notes payables | **118,000** | 44 |
| Other payables | | |
| —Related parties | **370,180** | 85,651 |
| —Third parties | **1,173,179** | 1,109,245 |
| Staff welfare benefit payable | **5,318** | 55,837 |
| Dividend payables | **192,591** | — |
| Other taxes payable | **73,821** | 194,108 |
| Less: non-current portion | **(3,150,219)** | (3,257,835) |
| Current portion | **3,163,331** | 3,017,220 |

Trade payables are settled in accordance with agreed terms with suppliers. As at 30 June 2019, the aging analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date or contractual terms is as follows:

| | As at 30 June 2019 RMB'000 | 31 December 2018 RMB'000 |
|---|---|---|
| Within one year | **3,128,696** | 3,735,975 |
| Over one year | **1,251,765** | 1,094,195 |
| | **4,380,461** | 4,830,170 |

## 12. Borrowings

| | As at 30 June 2019 RMB'000 | 31 December 2018 RMB'000 |
|---|---|---|
| Non-current | | |
| Long-term bank borrowings | **6,863,473** | 5,560,168 |
| Corporate bonds and other borrowings | **5,892,995** | 5,618,824 |
| | **12,756,468** | 11,178,992 |
| Current | | |
| Short-term bank borrowings | **2,406,210** | 2,567,745 |
| Current portion of long-term bank borrowings | **1,538,473** | 1,116,109 |
| Current portion of corporate bonds and other borrowings | **2,818,266** | 2,071,680 |
| | **6,762,949** | 5,755,534 |
| | **19,519,417** | 16,934,526 |

## INDUSTRY OVERVIEW

In 2019, the development of China's environmental protection industry entered into new era. The general regulatory pattern in respect of water, land, solid wastes and exhaust gas has been formed. Under the new regulatory pattern, the policies for environmental protection industry have shifted from entirety to refining. "Waste sorting" was the hottest topic in the environmental protection industry in the first half of 2019. In February 2019, the Ministry of Housing and Urban-Rural Development proposed the goal and timetable for waste sorting. In June 2019, Xi Jinping, General Secretary of the Communist Party of China, made important instructions on waste sorting, emphasizing that waste sorting is an important manifestation of the level of social civilization. The successive introduction of these guiding policies will promote the rapid development of China's domestic waste sorting operations. In addition, on 1 January 2019, the Prevention and Control of Soil Pollution Law*（《土壤污染防治法》）was officially implemented, clarifying the main responsibilities for enterprises to prevent soil contamination, and was expected to promote the accelerated release of demands in the field of soil remediation; in May 2019, relevant ministries and commissions issued the Three-Year Action Plan on Quality and Efficiency Improvement for Urban Wastewater Treatment*（《城鎮污水處理提質增效三年行動方案》）which clarified the general requirements on the scale and effluent quality of urban wastewater facilities. As a result, the water business industry will usher in new market space and be confronted with technical challenges.

In light of the continuous demand upgrading of China's environmental governance, with the support of relevant policies, the market capacity of the water business industry continued to expand. In particular, the market demand of emerging fields in the wastewater treatment industry including black and odorous water treatment and rural water environment management grew rapidly, indicating relatively large development potential; compared with the wastewater treatment industry, the water supply sector has entered a stable development period in recent years with a stable market space and relatively saturated demand. Due to the backward economic development of China's townships and towns, the awareness of environmental protection is not strong. In addition, the construction of wastewater treatment facilities starts late and such facilities are not perfect, resulting in a lower wastewater treatment rate of townships and towns and an urgent demand for quality and efficiency improvement. In the future, wastewater treatment of townships and towns is expected to become a promising field in the water business industry and enters the stage of rapid growth. On the other hand, the potential of the intelligent water business market needs to be released urgently. Strengthening the construction of water information technology will become the development trend of the water business industry. The enhancement of the overall efficiency of the water business industry can only be better promoted by way of improvement of the information resources integration and development and utilization management level of the water business industry through information construction, to achieve long-term development of the water business industry.

With the emphasis on environmental pollution by the state and the people, China's solid waste treatment industry has continued to maintain a strong development momentum in recent years. Since the beginning of this year, the Prevention and Control of Soil Pollution Law*（《土壤污染防治法》）has been officially implemented, and the waste sorting has been fully implemented. The continuous improvement of the policy environment has brought new opportunities and challenges to the solid waste disposal industry. As the environmental law enforcement is becoming stricter, the price of industrial and medical solid waste treatment has increased with the release of demand. The continuously strengthened inspection actions will result in a larger market space, and will also impose higher requirements on the treatment capacity and efficiency of hazardous waste treatment enterprises. With the gradual improvement of China's waste sorting, the domestic waste treatment field will also see new changes. On the one hand, the competition in the waste incineration and recycling market is more intense and enterprises with core technologies for wet waste treatment will have greater market competitiveness; on the other hand, there will be opportunities in all aspects of the solid waste treatment industry chain, including upstream sanitation equipment manufacturing, midstream sanitation services, collection and transportation, and downstream waste treatment, and enterprises with complete industrial chain business technology will gain an advantage in the competition.

Environmental protection is a key aspect in the current social development. The healthy development of the environmental protection industry is an important driver for promoting people's better lives. With the promulgation and implementation of various policies and the normalization of supervision at all levels, the environmental protection industry has entered a new development period. In the face of a new development pattern and greater market opportunities, enterprises can continue to achieve healthy and stable development only by continuous improvement of their core competitiveness.

## DEVELOPMENT STRATEGIES AND PROSPECT

In 2019, given the increasing uncertainty of the international situation, in particular the Sino-US relations, the downward pressure on domestic economic growth and the formation of the regulatory pattern in the environmental protection industry, the environmental protection industry is facing greater challenges and also new development opportunities. The Group pays attention to the policy dynamics, constantly adjusts the asset structure to reduce the gearing ratio, and proactively improves the industrial chain of relevant segments to enhance its own competitiveness. The Group has achieved certain operational benefits and realized continuous development under the new industrial pattern despite of many difficulties by continuous advancement of the progress of projects under construction and improvement of the operation management level of projects.

Based on the current development trend of the environmental protection industry and its own development, the Group strives to gradually release the project bonus accumulated in the early stage to promote the Group's further development in a certain period through the development strategy of prudent development of high-quality projects, full advancement of the progress of projects under construction, and improvement of operation management level and comprehensive competitiveness. The Group will adhere to a clear investment direction, focus on quality projects with operational assets, and closely monitor opportunities for upgrading existing projects. It will proactively upgrade core technologies such as sludge carbonization and solid waste recycling, and continue to consolidate the market size of water business segment and operation management level while reinforcing the core competitiveness of the solid waste treatment business segment. In addition, the Group will leverage on its existing technology accumulation and outreach cooperation to proactively penetrate in the emerging fields of environmental protection, to continuously consolidate and enhance its market competitiveness in the industry.

In terms of investment, the Group will continue to regard "with operational assets" as the basic standard for investment in conducting strict screening and prudent investment; the Group will pay further attention to and make appropriate investment in the high-quality enterprises with stable cash flow, high-tech content or beneficial to the long-term development of the Group; in view of the stricter external regulatory environment, the Group will pay close attention to the legal and financial risks, project quality and compliance issues of projects during investment and in the post-investment phases to ensure that the project operation complies with relevant national regulations and further standardize investment projects to achieve projects' development in a more healthy and sustainable way.

In respect of financing, the Group will continue to strengthen centralized management of funds, increase equity financing through adjustment to the financing structure, and strengthen internal and external financing to make full use of the financing functions of each area to meet fund demand; the Group will strictly control the increase in financial costs and reasonably match the annual investment with the capital use plan, striving to obtain low-cost funds; moreover, the Group will further intensify fund management to improve the efficiency of internal fund use.

For operation management, the Group will fully promote the progress of projects under construction, in particular the Group's development focus including industrial hazardous waste, medical hazardous waste and waste incineration power generation, accelerate the improvement of quality and efficiency of the operating projects, and constantly improve the operating efficiency and management level of existing projects to increase positive cash flow of the Group's operating activities. Meanwhile, the Group will further enhance area management level, implement strict control of financial costs, and enhance funds management and compliance management, to prevent operational 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"* (立足雲南、面向全國、走向國際，致力成為領先的城鎮環境綜合服務商), and consolidate the water business segment and expand the solid waste business segment. Meanwhile, by taking advantage of the market opportunities in the environmental protection industry, the Group will further enhance its investment and financing capabilities, technological 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 2019, the Group's relevant water projects (including the following wastewater treatment projects, water supply projects and all water related projects under other business segment) had a total daily treatment capacity of approximately 5,956,300 tonnes, representing an increase of approximately 5.9% as compared to the total daily treatment capacity of 5,627,000 tonnes as at 31 December 2018.

As at 30 June 2019, 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 segment) had a total annual solid waste treatment capacity of approximately 3,673,500 tonnes.

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 two relevant projects including the phase II drainage reconstruction and expansion project in Hetian City, Xinjiang Uygur Autonomous Region and the rural wastewater collection and treatment project in Longhai City, Fujian Province. The total investment amount of the above-mentioned two projects was approximately RMB1.5 billion with business involving wastewater treatment, the integration of water supply and drainage, etc., and both projects are carried out by way of service concession arrangement (e.g. BOT model). As at 30 June 2019, the Group had 29 projects in relation to the municipal environment comprehensive treatment under construction.

**Wastewater Treatment Projects**

As at 30 June 2019, the Group had a total of 121 concession wastewater treatment projects which were either under construction or in operation, including 7 BOO projects, 69 BOT projects, 2 TOO projects, 21 TOT projects, 2 ROT projects and 20 municipal environment comprehensive treatment projects, with a total daily wastewater treatment capacity of approximately 3,230,600 tonnes, representing an addition of 1 BOT project, 1 TOT project, 1 ROT project and 3 municipal environment comprehensive treatment projects, and an increase in the total daily wastewater treatment capacity of approximately 203,400 tonnes or a growth rate of approximately 6.7% as compared with 31 December 2018.

As at 30 June 2019, 84 concession projects with a total daily wastewater treatment capacity of approximately 2,342,000 tonnes had commenced commercial operation, representing an addition of 1 TOT project, 1 ROT project and a reduction of 1 BOT project, and a decrease in the total daily wastewater treatment capacity of approximately 10,000 tonnes as compared with 31 December 2018. During the Reporting Period, the Group's effective wastewater treatment utilization rate was approximately 75.05%, and the average unit charge of wastewater treatment was approximately RMB1.36 per tonne.

As at 30 June 2019, 37 concession projects with a total daily wastewater treatment capacity of approximately 888,600 tonnes had not commenced commercial operation (including 20 municipal environment comprehensive treatment projects with a total daily wastewater treatment capacity of approximately 410,700 tonnes), representing an addition of 2 BOT projects, 1 ROT project and 3 municipal environment comprehensive treatment projects, and an increase in the total daily wastewater treatment capacity of approximately 213,400 tonnes as compared with 31 December 2018.

## Water Supply Projects

As at 30 June 2019, the Group had 65 concession water supply projects with a total daily capacity of approximately 2,327,000 tonnes which were either under construction or in operation, including 15 BOO projects, 34 BOT projects, 11 TOT projects and 5 municipal environment comprehensive treatment projects, representing an addition of 3 BOT projects, and an increase in the total daily capacity of approximately 106,000 tonnes or a growth rate of approximately 4.8% as compared with 31 December 2018.

As at 30 June 2019, 36 concession projects with a total daily capacity of approximately 1,365,000 tonnes had commenced commercial operation, representing an addition of 5 BOT projects and a reduction of 1 BOO project, and an increase in the total daily capacity of approximately 80,000 tonnes as compared with 31 December 2018. During the Reporting Period, the Group's effective water supply utilization rate was approximately 66.55%, and the average unit charge of water supply was approximately RMB2.41 per tonne.

As at 30 June 2019, 29 concession projects with a total daily capacity of approximately 962,000 tonnes had not commenced commercial operation (including 5 municipal environment comprehensive treatment projects with a total daily capacity of approximately 332,000 tonnes), representing an addition of 1 BOO project, a reduction of 2 BOT projects, and an increase in the total daily capacity of approximately 26,000 tonnes as compared with 31 December 2018.

## Solid Waste Treatment Projects

As at 30 June 2019, the Group had 19 solid waste treatment projects with a total annual treatment capacity of approximately 3,527,500 tonnes, 8 of them with an annual treatment capacity of approximately 1,168,000 tonnes had commenced commercial operation, and 11 of them with an annual treatment capacity of approximately 2,359,500 tonnes were under construction (including 4 municipal environment comprehensive treatment projects with an annual treatment capacity of approximately 1,243,000 tonnes). During the Reporting Period, the Group's effective solid waste treatment utilization rate was approximately 83.93%.

## 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 2019, 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 11 EPC projects, representing an addition of 1 EPC project as compared with 31 December 2018.

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 2019, the Group had 32 O&M projects, including 30 wastewater treatment projects with a total daily wastewater treatment capacity of approximately 393,700 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 RMB2,593.8 million, representing a period-on-period increase of approximately 7.1% as compared with revenue for the six months ended 30 June 2018. During the Reporting Period, the Group realized a net profit of approximately RMB121.0 million, representing a period-on-period decrease of approximately 4.8% as compared with the six months ended 30 June 2018. Profit attributable to the ordinary shareholders of the Company was approximately RMB59.3 million, representing a period-on-period decrease of approximately 24.5% as compared with the six months ended 30 June 2018. Earnings per share for the six months ended 30 June 2019 was approximately RMB0.05.

## Revenue

Revenue of the Group increased from approximately RMB2,422.9 million for the six months ended 30 June 2018 to approximately RMB2,593.8 million for the Reporting Period, representing an increase of approximately 7.1%.

In respect of the business segments of the Group, revenue from the wastewater treatment business segment decreased by approximately 23.3% from approximately RMB1,269.0 million for the six months ended 30 June 2018 to approximately RMB973.8 million for the Reporting Period. Revenue from the water supply segment increased by approximately 31.3% from approximately RMB508.0 million for the six months ended 30 June 2018 to approximately RMB667.1 million for the Reporting Period. Revenue from solid waste treatment business segment increased by approximately 115.5% from approximately RMB300.0 million for the six months ended 30 June 2018 to approximately RMB646.5 million for the Reporting Period. Revenue from construction and sales of equipment business segment decreased by approximately 8.0% from approximately RMB302.3 million for the six months ended 30 June 2018 to approximately RMB278.2 million for the Reporting Period. Revenue from other business decreased by approximately 35.8% from approximately RMB43.6 million for the six months ended 30 June 2018 to approximately RMB28.0 million for the Reporting Period.

The decrease in revenue from the wastewater treatment business segment was mainly attributable to (i) a decrease in construction revenue due to several wastewater treatment projects were near completion during the Reporting Period; and (ii) the increase in the operation revenue was less than the decrease in the construction revenue during the Reporting Period.

The increase in revenue from the water supply business segment was mainly attributable to (i) an increase operation revenue from existing water supply projects in the Reporting Period; and (ii) an increase in construction revenue during the Reporting Period.

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 in the Reporting Period; and (ii) an increase in operation revenue from existing solid waste treatment projects during the Reporting Period.

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

The decrease in revenue from the other business segment was mainly attributable to an decrease in service revenue generated by certain new O&M projects during the Reporting Period.

**Cost of Sales**

During the Reporting Period, the Group recorded cost of sales of approximately RMB1,855.5 million, representing a period-on-period increase of approximately RMB14.5 million or a growth rate of approximately 0.8% as compared with approximately RMB1,841.0 million for the six months ended 30 June 2018. Increase of cost of sales was mainly due to the increase of cost for operating services and construction services which was partially offset by the decrease of cost for EPC and equipment sales and other services.

**Gross Profit Margin**

During the Reporting Period, gross profit margin of the Group was approximately 28.5%, representing a period-on-period increase of approximately 4.5%.

**Other Income**

During the Reporting Period, the Group recorded other income of approximately RMB34.3 million, representing a period-on-period decrease of approximately RMB17.4 million or a reduction rate of approximately 33.7% as compared with approximately RMB51.7 million for the six months ended 30 June 2018. The decrease in other income was mainly attributable a decrease in the government grant and refunds of value-added tax during the Reporting Period.

**Selling Expenses**

During the Reporting Period, selling expenses of the Group were approximately RMB20.9 million, representing a period-on-period decrease of approximately RMB0.4 million or a decrease of approximately 1.9% from approximately RMB21.3 million for the six months ended 30 June 2018. The change in selling expenses was not significant during the Reporting Period.

**Administrative Expenses**

During the Reporting Period, administrative expenses of the Group were approximately RMB191.8 million representing a period-on-period increase of approximately RMB14.6 million or a increase rate of approximately 8.2% from approximately RMB177.2 million for the six months ended 30 June 2018. The increase in administrative expenses was primarily due to an increase in legal and professional fee, employee compensation, and travelling expense during the Reporting Period.

**Finance Costs — net**

Net finance costs increased by approximately RMB107.7 million from approximately RMB295.0 million for the six months ended 30 June 2018 to approximately RMB402.7 million for the Reporting Period, representing a growth rate of approximately 36.5%. The increase in net finance costs was primarily due to an increase in borrowings and increase of average borrowing rate during the Reporting Period.

The average interest rate on borrowings of the Group for the Reporting Period was approximately 5.27% per annum, representing a period-on-period increase of 0.40% as compared with 4.87% for the six months ended 30 June 2018. The increase in the average borrowing rate was due to an increase in the interest rate on borrowing in the national wide during the Reporting Period.

**Profit Before Income Tax**

As a result of the above factors, the Group recorded a profit before income tax of approximately RMB155.9 million for the six months ended 30 June 2019, representing an decrease of approximately 3.0% as compared with approximately RMB160.7 million recorded for the six months ended 30 June 2018.

**Income Tax Expenses**

Income tax expenses increased by approximately RMB1.3 million from approximately RMB33.6 million for the six months ended 30 June 2018 to approximately RMB34.9 million for the Reporting Period, representing an increase of approximately 3.9%. 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 approximately RMB6.1 million from approximately RMB127.1 million for the six months ended 30 June 2018 to approximately RMB121.0 million for the Reporting Period, representing a decrease of approximately 4.8%. Net profit margin decreased from approximately 5.2% for the six months ended 30 June 2018 to approximately 4.7% for the Reporting Period.

**Receivables under Service Concession Arrangements**

The Group's receivables under service concession arrangements increased by approximately RMB386.1 million from approximately RMB4,223.1 million as at 31 December 2018 to approximately RMB4,609.2 million as at 30 June 2019, representing an increase of approximately 9.1%. Such increase was primarily due to a number of concession projects commenced commercial operation during the Reporting Period.

**Trade and Other Receivables and Prepayments**

The Group's trade and other receivables and prepayments increased by approximately RMB726.3 million from approximately RMB7,416.0 million as at 31 December 2018 to approximately RMB8,142.3 million as at 30 June 2019, representing an increase of approximately 9.8%. Such increase was primarily due to (i) increase of trade receivable from local government; and (ii) increase of deposit from projects that the Group intended to acquire.

## Cash and Cash Equivalents

The Group's total cash balance increased by approximately RMB630.7 million from approximately RMB2,214.4 million as at 31 December 2018 to approximately RMB2,845.1 million as at 30 June 2019, representing an increase of approximately 28.5%. Such increase was primarily due to new equity instruments and debt financing instruments.

## Trade and Other Payables

The Group's trade and other payables increased by approximately RMB38.5 million from approximately RMB6,275.1 million as at 31 December 2018 to approximately RMB6,313.6 million as at 30 June 2019, representing an increase of approximately 0.6%. Such increase was not significant during the Reporting Period. This was due to (i) the increase of deposit payables for PPP projects under construction; and (ii) the dividend payables for the year ended 31 December 2018, which was partially offset by the decrease of other taxes payable.

## Borrowings

As at 30 June 2019, the Group had borrowings of approximately RMB19,519.4 million (31 December 2018: approximately RMB16,934.5 million).

As at 30 June 2019, the Group had unsecured borrowings of approximately RMB12,302.6 million (31 December 2018: approximately RMB11,702.3 million), and secured borrowings of approximately RMB7,216.8 million (31 December 2018: approximately RMB5,232.2 million).

## Pledge of Assets

As at 30 June 2019, borrowings of approximately RMB7,216.8 million (31 December 2018: approximately RMB5,232.2 million) were secured by the Group's receivables under service concession arrangements, contract assets, land use rights, property, plant and equipment and intangible assets and the Company's investments in subsidiaries with carrying value of RMB7,965.2 million (31 December 2018: approximately RMB5,278.6 million).

## Capital Commitments

The Group's capital commitments increased by approximately RMB2,025.1 million from approximately RMB10,175.5 million as at 31 December 2018 to approximately RMB12,200.6 million as at 30 June 2019, representing an increase of approximately 19.9%. Such increase was primarily due to the Group's increased investments in several municipal environment comprehensive treatment projects during the Reporting Period.

### Gearing Ratio

The Group's gearing ratio (calculated as net debt divided by total capital) decreased from approximately 67.98% as at 31 December 2018 to approximately 67.96% as at 30 June 2019. The change of gearing ratio was not significant in the Reporting Period.

## INTERIM DIVIDEND

The Board does not recommend any distribution of interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

## SIGNIFICANT INVESTMENTS AND ACQUISITIONS

— On 2 January 2019, the Company together with YCIH No. 1 Water Resources and Hydropower Construction Co., Ltd.* (雲南建投第一水利水電建設有限公司) were formally awarded the phase II drainage reconstruction and expansion project in Hetian City, which is granted by Bureau of Housing and Urban Rural Construction of Hetian City, Xinjiang Uygur Autonomous Region* (新疆維吾爾自治區和田市住房和城鄉建設局) by way of public tender. The total estimated investment of the project amounted to approximately RMB326,581,500.

— On 25 January 2019, the Company conditionally agreed to acquire the 20% registered capital of Fujian Dongfei Environment Group Co., Ltd* (福建東飛環境集團有限公司) ("**Fujian Dongfei**") held by Waytop Investment Group Limited (滙鼎投資集團有限公司) at a consideration of RMB120,000,000 and conditionally agreed to subscribe for the 20% registered capital of Fujian Dongfei on a fully-diluted basis as enlarged by the subscription (comprising newly increased registered capital of approximately RMB33,333,333 and capital reserve of approximately RMB166,666,667) at a consideration of RMB200,000,000. As at the date of this announcement, Fujian Dongfei is an associated company of the Company and its financial results, assets and labilities have not consolidated into the accounts of the Group.

— On 29 January 2019, the Company, Guangzhou Engineering Contractor Group Co., Ltd.* (廣州工程總承包集團有限公司) and Zhongdu Engineering Design Co., Ltd.* (中都工程設計有限公司) entered into the joint venture agreement in relation to establishment of Luoding City Yunshui Environmental Protection Co., Ltd.* (羅定市雲水環保有限公司) as a joint venture company in Luoding, Guangdong Province with a total investment amount of RMB732,882,600.

— On 14 May 2019, the Company together with YCIH No. 1 Water Resources and Hydropower Construction Co., Ltd.* (雲南建投第一水利水電建設有限公司) and Zhongdu Engineering Design Co., Ltd.* (中都工程設計有限公司) were formally awarded the rural wastewater collection and treatment system project in Longhai City, which is granted by Bureau of Housing and Urban Rural Construction of Longhai City, Fujian Province* (福建省龍海市住房和城鄉建設局) by way of public tender. The total estimated investment of the project amounted to approximately RMB1,184,001,000.

For details of the above-mentioned significant investments and acquisitions, please refer to the announcements published by the Company on 2 January 2019, 25 January 2019, 29 January 2019 and 14 May 2019, respectively.

**Subsequent Events**

— On 2 July 2019, the Company received the "Notification of the State-owned Assets Supervision and Administration Commission of the Yunnan Provincial People's Government* (雲南省人民政府) in Relation to the Promotion of Strengthening Cooperation with China Poly Group Corporation Limited* (中國保利集團有限公司) ("**China Poly Group**")" forwarded by Yunnan Metropolitan Construction Investment Co., Ltd.* (雲南省城市建設投資集團有限公司) ("**YMCI**"), which holds 358,757,162 domestic shares of the Company through its wholly owned subsidiary Yunnan Province Water Industry Investment Co., Ltd.* (雲南省水務產業投資有限公司), and 8,449,000 H shares of the Company through its wholly owned subsidiary Caiyun International Investment Limited, representing approximately 31.00% of the total issued share capital of the Company, being the controlling shareholder of the Company. Pursuant to the notification, Yunnan Provincial People's Government and China Poly Group Corporation Limited signed a strategic cooperation agreement, pursuant to which China Poly Group Corporation Limited intends to engage in the mixed ownership reform of YMCI, which may result in changes of the controlling shareholder and beneficial owner of YMCI and possible changes of the beneficial owner of the Company.

— On 29 July 2019, the Company received a notice from Fujian Dongfei that it has been formally awarded the 2019 Yanping central district environment sanitation and cleaning market-oriented operation services procurement project in Nanping City, which was granted by Yanping District Urban Management Bureau, Nanping City, Fujian Province* (福建省南平市延平區城市管理局) by way of public tender. The term of the project is from 2019 to 2025, and its total estimated investment amounted to approximately RMB301,951,347.6.

For details of the above-mentioned subsequent events, please refer to the announcements published by the Company on 2 July 2019 and 29 July 2019, 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 one meeting, to discuss the nomination of Mr. Chen Yong as the independent non-executive Director candidate of the second session of the Board and to express opinion in this regard. For details, please refer to the circular of the Company dated 26 April 2019.

## 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 (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 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 two meetings, to discuss the annual results of 2018 of the Group, the proposed distribution of final dividend, the re-appointment of auditor, to fix auditor's remuneration and other matters.

The Audit Committee had reviewed the unaudited interim condensed consolidated 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 two executive Directors, Mr. Yu Long (as chairman) and Mr. Yang Fang, three independent non-executive Directors, Mr. Liu Shuen Kong, Mr. Hu Song and Mr. Ma Shihao, and one Supervisor, Mr. Huang Yi.

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 29 March 2019, Mr. Feng Zhuangzhi resigned as a non-executive Director with effective from the conclusion of the annual general meeting convened on 13 June 2019.

Mr. Chen Yong was appointed as a non-executive Director, with effect from 13 June 2019 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 2018.

## 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 2019.

## 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 2019.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the six months ended 30 June 2019, 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 2019, 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 2019 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 2019 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 2019 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,
28 August 2019

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

** For identification purposes only*