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YUNNAN WATER

雲南水務投資股份有限公司

Yunnan Water Investment Co., Limited*

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

(Stock code: 6839)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB6,538.0 million, representing an increase of approximately 4.5% compared with the year ended 31 December 2018
- Profit for the year was approximately RMB553.8 million, representing an increase of approximately 11.5% compared with the year ended 31 December 2018
- Profit attributable to ordinary shareholders of the Company was approximately RMB398.2 million, representing an increase of approximately 0.1% compared with the year ended 31 December 2018
- Basic earnings per share was approximately RMB0.334, representing an increase of approximately 0.3% compared with the year ended 31 December 2018
- The Board recommends the distribution of final dividend of RMB0.15 per share (tax included) for the year ended 31 December 2019 (2018: RMB0.15 per share)

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 2019 (the “**Reporting Period**”) together with the comparative figures as follows:

Consolidated statement of profit or loss and other comprehensive income

	Note	Year ended 31 December	
		2019 RMB'000	2018 RMB'000
Revenue	5	6,538,024	6,255,628
Cost of sales		<u>(4,705,711)</u>	<u>(4,757,619)</u>
Gross profit		1,832,313	1,498,009
Other income	6	124,024	144,668
Other (losses)/gains — net		(1,425)	10,541
Selling expenses		(43,398)	(43,884)
Administrative expenses		(424,196)	(395,120)
Impairment losses on financial assets		<u>(48,526)</u>	<u>(25,510)</u>
Operating profit		1,438,792	1,188,704
Finance income	7	66,255	99,616
Finance expenses	7	<u>(880,422)</u>	<u>(678,128)</u>
Finance costs — net	7	(814,167)	(578,512)
Share of profit of investments accounted for using the equity method		<u>52,924</u>	<u>34,034</u>
Profit before income tax		677,549	644,226
Income tax expenses	8	<u>(123,741)</u>	<u>(147,511)</u>
Profit for the year		553,808	496,715
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
— Exchange differences on translation of foreign operations		<u>18,215</u>	<u>(172,741)</u>
Total comprehensive income for the year, net of tax		<u>572,023</u>	<u>323,974</u>

		Year ended 31 December	
		2019	2018
	<i>Note</i>	RMB'000	RMB'000
Profit attributable to:			
— Ordinary shareholders of the Company		398,153	397,753
— Holders of perpetual capital instruments		119,800	83,194
— Non-controlling interests		35,855	15,768
		<u>553,808</u>	<u>496,715</u>
Total comprehensive income attributable to:			
— Ordinary shareholders of the Company		416,368	225,012
— Holders of perpetual capital instruments		119,800	83,194
— Non-controlling interests		35,855	15,768
		<u>572,023</u>	<u>323,974</u>
Earnings per share for profit attributable to ordinary shareholders of the Company <i>(expressed in RMB per share)</i>			
— Basic and diluted	9	<u>0.334</u>	<u>0.333</u>

Consolidated balance sheet

		As at 31 December	
		2019	2018
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		3,177,451	2,622,288
Investment properties		24,927	25,779
Right-of-use assets		270,683	—
Land use rights		—	182,831
Receivables under service concession arrangements	11	5,026,423	4,165,248
Contract assets		6,191,854	4,277,955
Amounts due from customers for contract work		4,401	—
Intangible assets		11,445,273	10,153,155
Investments accounted for using the equity method		1,096,017	661,042
Financial asset at fair value through other comprehensive income		4,675	4,675
Trade and other receivables	12	43,999	13,771
Prepayments	12	1,364,449	942,875
Deferred income tax assets		514,623	314,132
		<u>29,164,775</u>	<u>23,363,751</u>
Current assets			
Receivables under service concession arrangements	11	51,892	57,852
Inventories		103,485	102,089
Amounts due from customers for contract work		5,120	—
Contract assets		521,058	338,197
Trade and other receivables	12	7,126,742	5,763,860
Prepayments	12	234,934	695,498
Restricted cash		192,691	123,043
Cash and cash equivalents		2,468,435	2,214,352
Financial assets at fair value through profit or loss		—	4,320
Derivative financial instruments		—	10,884
		<u>10,704,357</u>	<u>9,310,095</u>
Total assets		<u><u>39,869,132</u></u>	<u><u>32,673,846</u></u>

		As at 31 December	
		2019	2018
	<i>Note</i>	RMB'000	RMB'000
EQUITY			
Equity attributable to ordinary shareholders of the Company			
Share capital		1,193,213	1,193,213
Other reserves		2,280,588	2,197,015
Retained earnings		1,275,515	1,166,594
		4,749,316	4,556,822
Perpetual capital instruments		2,610,000	1,200,000
Non-controlling interests		1,186,669	1,177,450
Total equity		8,545,985	6,934,272
LIABILITIES			
Non-current liabilities			
Lease liabilities		39,010	—
Borrowings	<i>13</i>	15,199,525	11,178,992
Trade and other payables	<i>14</i>	3,292,499	3,257,835
Deferred income		701,720	692,361
Deferred income tax liabilities		1,168,983	1,048,241
Provision		359,123	349,734
		20,760,860	16,527,163
Current liabilities			
Contract liabilities		106,676	119,409
Lease liabilities		11,600	—
Borrowings	<i>13</i>	6,419,405	5,755,534
Trade and other payables	<i>14</i>	3,675,541	3,017,220
Current income tax liabilities		349,065	317,748
Derivative financial instruments		—	2,500
		10,562,287	9,212,411
Total liabilities		31,323,147	25,739,574
Total equity and liabilities		39,869,132	32,673,846

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 Company's H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 27 May 2015 with the total share capital subsequently increased to RMB1,193,213,000.

The Company is an investment holding company. The Group are principally engaged in the development, design, construction, operation and maintenance of municipal water supply, wastewater treatment and solid waste treatment facilities. The address of its registered office is Yunnan Water, 2089 Haiyuan North Road, Gaoxin District, Kunming, Yunnan Province, the PRC.

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2. Basis of preparation

The consolidated financial statements of the Group 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, except for certain financial assets and liabilities (including derivative instruments) measured at fair value.

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

The Group has applied the following new standards, amendments to standards and interpretations for the first time for their annual reporting period commencing on 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)-Interpretation 23	Uncertainty over income tax treatments
HKAS 28 (Amendments)	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 4 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.

(b) *New standards and amendments to standards not yet adopted by the Group*

Certain new standards and amendments to standards have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group.

HKAS 1 and HKAS 8 (Amendments)	Definition of Material ¹
HKFRS 3 (Amendments)	Definition of a Business ¹
Conceptual Framework (Revised)	Revised Conceptual Framework for Financial Reporting 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 or after 1 January 2020.
2. Effective date to be determined.

4. Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements that have been applied from 1 January 2019.

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

- (i) No significant impact on the Group's profit for 2019 as a result of adoption of HKFRS 16.
- (ii) The change in accounting policy affected the following items in the consolidated 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 office 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 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.

	<i>RMB'000</i>
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	<u>(2,961)</u>
Lease liability recognised as at 1 January 2019	<u>26,973</u>
Of which are:	
Current lease liabilities	11,154
Non-current lease liabilities	<u>15,819</u>
	<u>26,973</u>

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 consolidated 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.

(b) Practical expedients applied

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)-Interpretation 4 Determining whether an Arrangement contains a Lease.

5. 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.

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 2019 are as follows:

Year ended 31 December 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
Gross segment revenue	2,978,368	1,230,737	1,618,895	1,514,561	99,791	—	7,442,352
Inter-segment revenue	—	—	(904,328)	—	—	—	(904,328)
Revenue from external customers	2,978,368	1,230,737	714,567	1,514,561	99,791	—	6,538,024
Timing of revenue recognition							
— At a point in time	—	623,028	407,965	—	—	—	1,030,993
— Over time	2,978,368	607,709	306,602	1,514,561	99,791	—	5,507,031
Gross profit	946,576	236,761	337,764	266,203	45,009	—	1,832,313
Other income							124,024
Other losses — net							(1,425)
Selling expenses							(43,398)
Administrative expenses							(424,196)
Impairment losses on financial assets							(48,526)
Finance costs — net							(814,167)
Share of profit of investments accounted for using the equity method — net	30,304	5,223	10,644	24,542	—	(17,789)	52,924
Profit before income tax							677,549
Income tax expenses							(123,741)
Profit for the year							553,808
Depreciation and amortisation	(131,155)	(171,761)	(16,804)	(170,718)	(14,724)	(15,430)	(520,592)
Segment assets	15,619,480	7,277,522	5,508,035	7,348,612	986,814	3,128,669	39,869,132
Segment assets include: Investments accounted for using the equity method	236,025	46,590	45,361	464,034	34,534	269,473	1,096,017
Segment liabilities	5,983,320	1,178,220	2,230,171	2,005,710	1,138,799	18,786,927	31,323,147
Additions to non-current assets (other than financial instruments and deferred income tax assets)	2,423,830	489,061	398,021	1,846,925	70,697	1,559	5,230,093

Year ended 31 December 2018:

	Wastewater treatment	Water supply	Construction and sales of equipment	Solid waste treatment	Others	Unallocated	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Gross segment revenue	3,295,023	1,171,789	2,059,977	748,985	71,884	—	7,347,658
Inter-segment revenue	—	—	(1,092,030)	—	—	—	(1,092,030)
Revenue from external customers	3,295,023	1,171,789	967,947	748,985	71,884	—	6,255,628
Timing of revenue recognition							
— At a point in time	—	519,062	495,414	—	—	—	1,014,476
— Over time	3,295,023	652,727	472,533	748,985	71,884	—	5,241,152
Gross profit	735,879	227,446	343,094	167,091	24,499	—	1,498,009
Other income							144,668
Other gains — net							10,541
Selling expenses							(43,884)
Administrative expenses							(395,120)
Impairment losses on financial assets							(25,510)
Finance costs — net							(578,512)
Share of profit/(loss) of investments accounted for using the equity method — net	19,127	(8,903)	7,694	16,116	—	—	34,034
Profit before income tax							644,226
Income tax expenses							(147,511)
Profit for the year							496,715
Depreciation and amortisation	(117,348)	(162,033)	(14,378)	(151,792)	(12,768)	(12,553)	(470,872)
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
Additions to non-current assets (other than financial instruments and deferred income tax assets)	3,342,032	478,764	843,878	443,618	18,259	68,768	5,195,319

6. Other income

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Government grants	88,435	90,956
Value-added tax refunds	23,460	50,225
Miscellaneous income	12,129	3,487
	<u>124,024</u>	<u>144,668</u>

7. Finance income and expenses

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
<i>Finance income</i>		
— Net exchange gains on financing activities	40,658	67,253
— Miscellaneous income	25,597	32,363
	<u>66,255</u>	<u>99,616</u>
<i>Finance expenses</i>		
— Borrowing costs	(1,063,193)	(777,686)
Less: amounts capitalised on qualifying assets	191,435	109,474
	<u>(871,758)</u>	<u>(668,212)</u>
— Unwinding of provision	(8,664)	(9,916)
	<u>(880,422)</u>	<u>(678,128)</u>
Finance costs — net	<u>(814,167)</u>	<u>(578,512)</u>

8. Income tax expenses

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Current income tax		
— Corporate income tax	203,490	178,073
Deferred income tax		
— Increase in deferred income tax assets	(200,643)	(82,609)
— Increase in deferred income tax liabilities	120,894	52,047
	<u>(79,749)</u>	<u>(30,562)</u>
	<u>123,741</u>	<u>147,511</u>

(a) *PRC corporate income tax*

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

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

Except for preferential treatments available to certain subsidiaries as mentioned above, other subsidiaries within the Group in Mainland China are subject to corporate income tax at the statutory rate of 25% (2018: 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 2019 (2018: 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 2019 (2018: 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 2019 (2018: 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 year ended 31 December 2019.

	Year ended 31 December	
	2019	2018
Profit attributable to the ordinary shareholders of the Company (RMB'000)	398,153	397,753
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><u>0.334</u></u>	<u><u>0.333</u></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 2019 (2018: same).

10. Dividends

At the board of directors meeting held on 27 March 2020, the directors of the Company proposed a final dividend for the year ended 31 December 2019 of RMB0.15 per ordinary share amounting to approximately RMB178,982,000 (2018: RMB0.15 per ordinary share amounting to approximately RMB178,982,000) out of retained earnings of the Company. These proposed dividends have not been reflected as dividends payable in these consolidated financial statements for the year ended 31 December 2019 but will be reflected as dividends distribution for the year ending 31 December 2020.

The 2018 dividends were paid in July 2019.

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	
	2019	2018
	RMB'000	RMB'000
Receivables under service concession arrangements	5,078,315	4,223,100
Portion classified as current assets	(51,892)	(57,852)
	<u>5,026,423</u>	<u>4,165,248</u>

The expected collection schedule of receivables under service concession arrangements is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within one year	51,892	57,852
One to two years	65,837	49,487
Two to five years	264,961	184,725
Over five years	4,695,625	3,931,036
	<u>5,078,315</u>	<u>4,223,100</u>

12. Trade and other receivables and prepayments

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade receivables		
— Related parties	2,891,572	2,575,260
— Local governments	935,935	824,240
— Third parties	1,835,486	1,155,422
Less: provision for impairment	(85,804)	(59,986)
	<u>5,577,189</u>	<u>4,494,936</u>
Other receivables		
— Related parties	36,281	31,921
— Third parties	1,589,085	1,259,880
Less: provision for impairment	(31,814)	(9,106)
	<u>1,593,552</u>	<u>1,282,695</u>
Total trade and other receivables	7,170,741	5,777,631
Less: non-current portion of other receivables	(43,999)	(13,771)
	<u>7,126,742</u>	<u>5,763,860</u>

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Prepayments		
— Related parties	502,227	161,135
— Third parties	<u>1,097,156</u>	<u>1,477,238</u>
	1,599,383	1,638,373
Less: non-current portion of prepayments	<u>(1,364,449)</u>	<u>(942,875)</u>
Current portion of prepayments	<u><u>234,934</u></u>	<u><u>695,498</u></u>

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	
	2019	2018
	RMB'000	RMB'000
Within one year	2,433,593	2,813,369
One to two years	1,776,680	1,035,378
Two to three years	855,993	511,217
Over three years	<u>596,727</u>	<u>194,958</u>
	<u><u>5,662,993</u></u>	<u><u>4,554,922</u></u>

13. Borrowings

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Non-current		
Long-term bank borrowings	10,450,837	5,560,168
Corporate bonds and other borrowings	<u>4,748,688</u>	<u>5,618,824</u>
	15,199,525	11,178,992
Current		
Short-term bank borrowings	1,290,000	2,567,745
Current portion of long-term bank borrowings	1,157,247	1,116,109
Current portion of corporate bonds and other borrowings	<u>3,972,158</u>	<u>2,071,680</u>
	6,419,405	5,755,534
	<u><u>21,618,930</u></u>	<u><u>16,934,526</u></u>

14. Trade and other payables

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade payables:		
— Related parties	1,324,339	1,542,830
— Third parties	3,900,181	3,287,340
	5,224,520	4,830,170
Notes payables	110,000	44
Other payables:		
— Related parties	326,575	85,651
— Third parties	1,043,518	1,109,245
Staff welfare benefit payable	53,073	55,837
Other taxes payable	197,914	194,108
Dividend payables	12,440	—
	6,968,040	6,275,055
Less: non-current portion	(3,292,499)	(3,257,835)
Current portion	3,675,541	3,017,220

- (a) Trade payables are settled in accordance with agreed terms with suppliers.
- (b) At 31 December 2019, the ageing analysis of the trade payables based on invoice dates or contractual terms, is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within one year	2,410,152	3,735,975
One to two years	2,236,221	487,378
Two to three years	176,184	363,768
Over three years	401,963	243,049
	5,224,520	4,830,170

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In 2019, key progress was made in the pollution prevention and control campaign in China, improving the overall quality of the ecological environment. With the formation of a general regulatory pattern in respect of water, land, solid wastes and exhaust gas, the policies for environmental protection industry have shifted from entirety to refining.

In late 2019 and early 2020, the amendments to the Law on Environmental Impact Assessment* (《環境影響評價法》)(the “Environmental Assessment Law”) were passed and adopted. The new Environmental Assessment Law removed legal qualification for environmental assessment agencies and reduced the administrative approval process. The law, however, further clarified the subjects responsible for environmental impact assessment, with stricter regulations on the supervision and management of environmental protection enterprises and accountability. In January 2019, the Action Plan on Establishing a Market-oriented and Diversified Ecological Protection Compensation Mechanism* (《建立市場化、多元化生態保護補償機制行動計劃》) was issued to promote ecological protection compensation with market-oriented and diversified means and utilize market forces effectively. That would help establish a long-term compensation mechanism to improve the quality and level of ecological protection compensation. In March 2019, the Green Industry Guidance Catalogue (2019 Edition)* (《綠色產業指導目錄 (二零一九年版) 》) was released. The catalogue provided “green” judgment standards for various departments to formulate relevant policies and measures, which can cope with the difficulties encountered by financial markets during specific practices. In May 2019, the Notice on Effectively Monitoring the Agricultural Ecological Environment* (《關於做好農業生態環境監測工作的通知》) was issued to arrange the overall monitoring on agricultural ecological environment. In July 2019, the State Council issued the Guiding Opinions on Promoting the Revitalization of Rural Industries* (《關於促進鄉村產業振興的指導意見》), which proposed the concept of strictly abiding by the redlines of cultivated land and ecological protection, saving resources, protecting the environment, and promoting the coordinated development of rural production and living ecology.

In the era of policy refining when public awareness of environmental protection is raising, the water business industry has become an important basic industry for urbanization. During the year, the Three-Year Action Plan on Quality and Efficiency Improvement for Urban Wastewater Treatment (2019–2021)* (《城鎮污水處理提質增效三年行動方案 (2019–2021年) 》) and the Guiding Opinions on Promoting the Treatment of Rural Domestic Wastewater* (《關於推進農村生活污水治理的指導意見》) have been promulgated. The backdrop underlying such promulgation is strong demand for improving and upgrading urban wastewater treatment, as well as the urgent need for popularizing treatment system of rural domestic wastewater. Consequently, there are ample opportunities for investment in environmental protection. Currently, the water business industry is facing issues such as lower operating efficiency and utilization ratio during the long-term development. Strengthening the construction of water information technology has become inevitable for the water business industry, which means the development of intelligent water business is an irresistible trend. What’s more, the water business industry is still fragmented and relatively regional. Industrial integration is expected to intensify in the future, and players without core competitiveness will be merged and absorbed by large water groups which will lead the market then.

Solid waste treatment has been a popular field in the environmental protection industry in recent years. The conception of waste classification and waste-free city has placed higher requirements on discharge reduction and resources recycling during the municipal solid waste treatment. It will also effectively promote the integration of the whole industrial chain of solid waste treatment. On the segment, the higher qualification barrier and regional barrier and profit margin of the hazardous waste treatment industry will inevitably lead to the industry concentration as the national legislation and supervision further tighten. On medical waste, the demand for treatment under the epidemic of novel coronavirus surged, which is driven by the government's stringent supervision over medical waste discharge due to the scarcity of medical waste treatment companies to be further exposed. On incineration and power generation of domestic wastes, the classification of urban domestic wastes and decline in power generation subsidies have put pressure on this area. In the long run, the improvement and upgrade of waste incineration and power generation technology is the key to sustaining stable development.

Sludge treatment has also attracted much attention in recent years. Environmental protection departments at all levels have launched relevant policies that clarify the importance of strict management on sludge discharge. With the continuous decrease of organic matters in the soil of cultivated land in China, how to return the treated sludge to the land as organic soil is a subject that needs to be explored continually.

2020 is a crucial year for the construction of ecological civilization. During the year, significant progress has been made in the construction of a resource-saving and environment-friendly society. The environmental protection industry also shoulders important social responsibility while embracing huge market opportunities. The Group will incorporate the social responsibility into its own business goals, contributing to the development of environmental protection industry and the construction of ecological civilization.

DEVELOPMENT STRATEGIES AND PROSPECT

With the formation of the general regulatory pattern in the environmental protection industry, players are facing greater challenges accompanied with opportunities. In the new market circumstances, quality and efficiency enhancement and technological innovation have become the key to the Group's strengthening and expansion of market competitiveness. In 2019, the Group watched closely the policy developments while optimizing the asset structure. The Company's asset management efficiency and operating performance have been promoted with continued progress with the construction of projects under construction, improvement in the project operation and management and unremitting efforts.

In 2020, the Group will continue with the construction progress and operational management of existing projects. On top of that, the Group will focus on market opportunities in areas such as comprehensive treatment of solid wastes, sludge treatment, and comprehensive improvement in rural environment, to further improve the quality of earnings. Apart from maintaining and expanding the scale of existing water business, the Group will speed up establishing the presence in the field of solid waste treatment, such as industrial hazardous waste, medical hazardous waste, and garbage power generation. With prudent and reasonable capital expenditures, the Group will advance the implementation of annual key investment projects as scheduled in order to achieve its organic growth.

Optimize the asset structure. The Group will accelerate the progress of projects under construction and proposed to ensure scheduled recognition of project profits. By increasing the proportion of assets with valuable contributions while reducing unnecessary asset occupation and consumption, the utilization efficiency of operating assets will be improved comprehensively. In furtherance, the Group will continue to implement the regional management model. It will hasten key solid waste business through prudent and reasonable capital expenditures, thus to achieve the adjustment to income structure and the steady expansion of business. Meanwhile, the Group will carry out capital replenishment if possible, in order to improve the existing capital structure, enhance financing potential, and realise upturn of performance and revaluation.

Further expand the solid waste segment. The Group will keep an eye on the relevant policies of “waste-free city” for the purpose of “advancing resource recycling of solid wastes and minimizing discharge”. Technological exploration and promotion, and cooperation with government-authorized industry-leading players of the industry will enable the Group to provide one-stop solutions in urban areas, so as to further enhance its core competitiveness.

Improve the comprehensive ability of operation management. The Group will accelerate the improvement of quality and efficiency of the operating projects, and further increase the yield of wastewater treatment projects. Meantime, enhanced efforts will be put in promoting and popularizing the Company’s intelligent water business. That would increase the core competitiveness of the Group on sewage treatment in villages and towns, and build its operational management advantages.

Looking forward, the Group will continue to adhere to the development goal of “basing 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 monitor closely the industry developments and get the pulse of the industry trends. The Group will further enhance its technological capabilities, core competitiveness and social influence, thereby continuously creating greater value for shareholders.

BUSINESS REVIEW

The Group is one of the leading integrated service providers in the urban 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**”), O&M (“**Operation and Maintenance**”) and licensed operation 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 2019, the Group’s water related projects (including the following wastewater treatment projects, water supply projects and all water related projects under other business segments) had the total daily treatment capacity of approximately 6,220,200 tonnes. As at 31 December 2019, the Group’s solid waste treatment related projects (including the following solid waste treatment projects and all solid waste treatment related projects under other business segments) had the total annual treatment capacity of approximately 3,571,000 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 five main relevant projects including the phase II drainage reconstruction and expansion project in Hetian City, Xinjiang Uygur Autonomous Region, the rural wastewater collection and treatment project in Longhai City, Fujian Province, the project in relation to new wastewater treatment facilities in Yunzhong, Xinzhou City, Shanxi Province and etc.. The business involved wastewater treatment, the integration of water supply and solid waste treatment and etc., all the projects are carried out by way of service concession arrangement (eg. BOT model). As at 31 December 2019, the Group had 32 projects in relation to the municipal environment comprehensive treatment.

Wastewater Treatment Projects

As at 31 December 2019, the Group had a total of 124 concession wastewater treatment projects, including 7 BOO projects, 69 BOT projects, 2 TOO projects, 21 TOT projects, 2 ROT projects and 23 municipal environment comprehensive treatment projects, with total daily treatment capacity of approximately 3,380,400 tonnes, representing an addition of 1 BOT project, 1 TOT project, 1 ROT project and 6 municipal environment comprehensive treatment projects year-on-year, and an increase in the daily wastewater treatment capacity of approximately 353,200 tonnes or a growth rate of approximately 11.7% as compared with the year ended 31 December 2018.

As at 31 December 2019, 91 concession projects with total daily treatment capacity of approximately 2,478,000 tonnes had commenced commercial operation (including 1 municipal environment comprehensive treatment project with a total daily wastewater treatment capacity of approximately 16,000 tonnes), representing an addition of 1 TOT project, an addition of 5 BOT projects, 1 ROT project and 1 municipal environment comprehensive treatment project which commenced operation year-on-year, and an increase in total daily treatment capacity of approximately 126,000 tonnes compared with the year ended 31 December 2018. During the Reporting Period, the Group's effective wastewater treatment utilization rate was approximately 77.35%, and the average unit charge of wastewater treatment was approximately RMB1.40 per tonne.

As at 31 December 2019, 33 concession projects with total daily treatment capacity of approximately 902,400 tonnes had not commenced commercial operation (including 22 municipal environment comprehensive treatment projects with total daily treatment capacity of approximately 544,500 tonnes), representing an addition of 1 ROT project, 1 BOT project, 6 municipal environment comprehensive treatment projects as compared with 31 December 2018. 5 BOT projects, 1 ROT project and 1 municipal environment comprehensive treatment project under construction converted to operation. The daily treatment capacity increased by approximately 227,200 tonnes.

Water Supply Projects

As at 31 December 2019, the Group had a total of 66 concession water supply projects with total daily treatment capacity of approximately 2,445,100 tonnes, including 15 BOO projects, 35 BOT projects, 11 TOT projects and 5 municipal environment comprehensive treatment projects, representing an addition of 4 BOT projects, and an increase in total daily capacity of approximately 224,100 tonnes compared with 31 December 2018, representing a growth rate of approximately 10.1%.

As at 31 December 2019, 38 concession projects with total daily capacity of approximately 1,405,000 tonnes had commenced commercial operation (including 1 municipal environment comprehensive treatment project with a total daily treatment capacity of approximately 30,000 tonnes), representing an addition of 6 BOT projects, 1 municipal environment comprehensive treatment project, and a reduction of 1 BOO project, and an increase in the total daily capacity of approximately 120,000 tonnes as compared with 31 December 2018. During the Reporting Period, the Group's effective water supply utilization rate was approximately 74.27%, and the average unit charge of water supply was approximately RMB2.46 per tonne.

As at 31 December 2019, 28 concession projects with total daily capacity of approximately 1,040,100 tonnes had not commenced commercial operation (including 4 municipal environment comprehensive treatment projects with total daily treatment capacity of approximately 409,700 tonnes), representing an addition of 1 BOO project, 4 BOT projects year-on-year. 6 BOT projects and 1 municipal environment comprehensive treatment project under construction converted to operation, The total daily capacity increased by approximately 104,100 tonnes.

Solid Waste Treatment Projects

As at 31 December 2019, the Group had 21 solid waste treatment projects with total annual treatment capacity of 3,571,000 tonnes, 8 of which with an annual treatment capacity of 1,169,400 tonnes had commenced commercial operation and 13 of them with an annual treatment capacity of 2,401,600 tonnes were under construction (including 4 municipal environment comprehensive treatment projects with an annual treatment capacity of approximately 1,137,800 tonnes). As compared to 31 December 2018, 2 additional solid waste treatment projects were under construction and the total annual treatment capacity increased by 43,500 tonnes. During the Reporting Period, the Group's effective solid waste treatment utilization rate was approximately 85.38%.

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 2019, the Group had a total of 11 BT projects, which were either under construction and/or completed, among which income of 10 BT projects was recognised 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 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 2019, the Group had 30 O&M projects, representing a reduction of 1 wastewater treatment project, and 1 solid waste treatment project as compared with 31 December 2018. These projects included 29 wastewater treatment projects with total daily treatment capacity of approximately 389,700 tonnes (including the capacity of wastewater treatment projects adopting O&M model within municipal environment comprehensive treatment projects), and 1 water supply project with daily treatment capacity of approximately 5,000 tonnes.

FINANCIAL REVIEW

Results of Operation

During the Reporting Period, the Group recorded revenue of approximately RMB6,538.0 million, representing an increase of approximately 4.5% compared with the year ended 31 December 2018. During the Reporting Period, the Group realized a profit of approximately RMB553.8 million, representing an increase of approximately 11.5% compared with the year ended 31 December 2018. Profit attributable to the ordinary shareholders of the Company was approximately RMB398.2 million, representing an increase of approximately 0.1% as compared with 31 December 2018. Earnings per share for the year ended 31 December 2019 was approximately RMB0.334.

Revenue

Revenue of the Group increased from approximately RMB6,255.6 million for the year ended 31 December 2018 to approximately RMB6,538.0 million for the Reporting Period, representing an increase of approximately 4.5%.

In respect of the business segments of the Group, revenue from wastewater treatment decreased by 9.6% from approximately RMB3,295.0 million for the year ended 31 December 2018 to approximately RMB2,978.4 million for the Reporting Period. Revenue from water supply increased by approximately 5.0% from approximately RMB1,171.8 million for the year ended 31 December 2018 to approximately RMB1,230.7 million for the Reporting Period. Revenue from solid waste treatment increased by approximately 102.2% from RMB749.0 million for the year ended 31 December 2018 to approximately RMB1,514.6 million for the Reporting Period. Revenue from construction and sales of equipment decreased by approximately 26.2% from approximately RMB967.9 million for the year ended 31 December 2018 to approximately RMB714.6 million for the Reporting Period. Revenue from other business increased by 38.8% from approximately RMB71.9 million for the year ended 31 December 2018 to approximately RMB99.8 million for the Reporting Period.

The decrease in revenue from the wastewater treatment segment was mainly attributable to (i) a decrease in construction revenue in the existing and new wastewater projects due to construction progress slowdown during the Reporting Period; and (ii) the increase in wastewater unit price and wastewater treatment capacity of certain water plants resulting in an increase in operating revenue, which was less than the decrease in construction revenue during the Reporting Period.

The increase in revenue from the water supply segment was mainly attributable to that (i) certain water supply projects which were newly acquired by the Group in the second half of 2018 generated operating revenue during the Reporting Period, and (ii) the increase in water supply unit price and water supply capacity of certain water plants results in an increase in operating revenue during the Reporting Period.

The increase in revenue from the solid waste treatment segment was mainly attributable to an increase in construction revenue generated by certain solid waste treatment projects under construction during the Reporting Period.

The decrease in revenue from the construction and sales of equipment segment was mainly attributable to (i) a continuous decrease of EPC construction and sales of equipment business during the Reporting Period; and (ii) the completion of the exiting BT projects.

Cost of Sales

Cost of sales of the Group for the Reporting Period was approximately RMB4,705.7 million, representing a decrease of approximately 1.1% as compared with approximately RMB4,757.6 million for the year ended 31 December 2018. The decrease was primarily due to (i) the continuous decrease of EPC construction and sales of equipment business during the Reporting Period; and (ii) the increase in wastewater treatment and water supply capacity of certain water plants resulting in an increase in operating cost, and the decrease in construction cost is greater than the increase in operating cost during the Reported Period.

Gross Profit Margin

During the Reporting Period, gross profit margin of the Group was approximately 28.0%, representing an increase of approximately 4.0% as compared with approximately 24.0% for the year ended 31 December 2018.

Other Income

During the Reporting Period, the Group recorded other income of approximately RMB124.0 million as compared with approximately RMB144.7 million for the year ended 31 December 2018, representing a decrease of approximately 14.3%. The decrease in other income was mainly due to a decrease in tax refund during the Reporting Period.

Other Gains — net

During the Reporting Period, the Group recorded other net loss of approximately RMB1.4 million, representing a decrease of approximately 113.3% as compared with a net gain of approximately RMB10.5 million for the year ended 31 December 2018. The decrease in other gains was mainly due to fair value loss on derivative financial asset.

Selling Expenses

During the Reporting Period, selling expenses of the Group was approximately RMB43.4 million, which decreased slightly from approximately RMB43.9 million for the year ended 31 December 2018.

Administrative Expenses

Administrative expenses of the Group increased by RMB29.1 million from approximately RMB395.1 million for the year ended 31 December 2018 to approximately RMB424.2 million for the Reporting Period, representing an increase of approximately 7.4%. The increase in administrative expenses was primarily due to an increase in legal and professional fee.

Finance Costs — net

Net finance costs increased by RMB235.7 million from approximately RMB578.5 million for the year ended 31 December 2018 to approximately RMB814.2 million for the Reporting Period, representing an increase of approximately 40.7%. The increase in net finance costs was primarily due to an increase of bank borrowings and the issuance of bond, and an increase in average borrowing interest rate.

The average interest rate on borrowings of the Group for the Reporting Period was approximately 5.32% per annum, representing an increase compared with approximately 4.86% per annum for the year ended 31 December 2018 due to the increase in market interest rate and diversified financing channels.

Profit Before Income Tax

As a result of the above factors, the Group recorded profit before income tax of approximately RMB677.5 million for the Reporting Period, representing an increase of approximately 5.2% as compared with approximately RMB644.2 million recorded for the year ended 31 December 2018.

Income Tax Expenses

Income tax expenses decreased by RMB23.8 million from approximately RMB147.5 million for the year ended 31 December 2018 to approximately RMB123.7 million for the Reporting Period, representing a decrease of approximately 16.1%. The decrease 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 RMB57.1 million from approximately RMB496.7 million for the year ended 31 December 2018 to approximately RMB553.8 million for the Reporting Period, representing an increase of approximately 11.5%. Net profit margin increased from approximately 7.9% for the year ended 31 December 2018 to approximately 8.5% for the Reporting Period.

Receivables under Service Concession Arrangements

The Group's receivables under service concession arrangements increased by RMB855.2 million from approximately RMB4,223.1 million as at 31 December 2018 to approximately RMB5,078.3 million as at 31 December 2019, representing an increase of approximately 20.3%. Such increase was primarily due to several construction projects were completed and generated operating revenue during the Reporting Period.

Trade and Other Receivables and Prepayments

The Group's trade and other receivables and prepayments increased by RMB1,354.1 million from approximately RMB7,416.0 million as at 31 December 2018 to approximately RMB8,770.1 million as at 31 December 2019, representing an increase of approximately 18.3%. Such increase was primarily due to (i) the continuous operation of EPC construction and sales of equipment business, and (ii) the increase in large VAT deductible input tax incurred during the construction process of the Group's several municipal environment comprehensive treatment projects.

Cash and Cash Equivalents

The Group's total cash balance increased by RMB254.0 million from approximately RMB2,214.4 million as at 31 December 2018 to approximately RMB2,468.4 million as at 31 December 2019, representing an increase of approximately 11.5%. 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 RMB692.9 million from approximately RMB6,275.1 million as at 31 December 2018 to approximately RMB6,968.0 million as at 31 December 2019, representing an increase of approximately 11.0%. Such increase was primarily due to (i) an increase in construction services payable due to the continuous investments in municipal environment comprehensive treatment projects under construction, and (ii) the increase of deposit payables for municipal environment comprehensive treatment projects under construction.

Borrowings

As at 31 December 2019, the Group had borrowings of approximately RMB21,618.9 million (31 December 2018: approximately RMB16,934.5 million).

As at 31 December 2019, the Group had unsecured borrowings of approximately RMB12,954.2 million (31 December 2018: approximately RMB11,702.3 million), and secured borrowings of approximately RMB8,664.7 million (31 December 2018: approximately RMB5,232.2 million).

Pledge of Assets

As at 31 December 2019, borrowings of approximately RMB8,664.7 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 RMB8,737.7 million (31 December 2018: approximately RMB5,278.6 million).

Capital Commitments

The Group's capital commitments increased by RMB2,479.5 million from approximately RMB10,175.5 million as at 31 December 2018 to approximately RMB12,655.0 million as at 31 December 2019, representing an increase of approximately 24.4%. 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) increased from approximately 67.98% as at 31 December 2018 to approximately 69.14% as at 31 December 2019. The increase in gearing ratio was mainly due to the increased scale of debt financing during the Reporting Period.

Employees and Remuneration Policy

As at 31 December 2019, the Group employed 6,666 employees (31 December 2018: 6,207). During the Reporting Period, staff cost was approximately RMB605.3 million (for the year ended 31 December 2018: RMB549.4 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\$”), Thai Baht (“THB”) 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 conduct business will not have significant effect on the Group’s financial position and results of operations.

Contingent Liabilities

As at 31 December 2019, the Group did not have any significant contingent liabilities.

Final Dividend

The Board has resolved to declare a final dividend of RMB0.15 per share (tax included) for the year ended 31 December 2019. 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 22 July 2020.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

- On 19 November 2019, the Company together with CATIC Construction Engineering Company Limited* (中航建築工程有限公司) were formally awarded the PPP project in relation to the engineering construction of water supply and drainage and supporting municipal infrastructures in Yila Lake Circular Economy Industrial Park, Toksun County, which is granted by the People’s Government of Toksun County, Turpan City, Xinjiang Uygur Autonomous Region (新疆維吾爾自治區吐魯番市托克遜縣人民政府), the PRC by way of public tender. The total estimated investment of the project amounted to approximately RMB381,400,000.
- On 7 November 2019, the PPP project for facilitating the Construction of Domestic Wastewater Treatment Facilities in the Entire Qingxin District of Qingyuan was formally awarded to the Company, Guangzhou Water & Electricity Equipment Installation Co., Ltd.*(廣州市水電設備安裝有限公司) and Guangzhou Public Utilities Planning & Design Institute Co., Ltd.*(廣州市公用事業規劃設計院有限責任公司) by the People’s Government of Qingxin District, Qingyuan City, Guangdong Province (廣東省清遠市清新區人民政府), the PRC by way of public tender. The total estimated investment amount of the project was approximately RMB191,111,500.
- On 23 October 2019, Guizhou Tongren City Development and Investment Group Co., Ltd.*(貴州省銅仁市城市開發投資集團有限公司), Guizhou Province Shiqian County Water Investment Co., Ltd.*(貴州省石阡縣水務投資有限責任公司), Guizhou Province Yinjiang Autonomous County Yinfeng Municipal Urban and Rural Construction Investment Group Co., Ltd.*(貴州省印江自治縣銀豐城鄉建設投資集團有限公司) entered into the joint venture agreement with the Company and China Urban Construction Design & Research Institute in relation to the establishment of the JV Company, namely Tongren City Yunshui Environment Co., Ltd.*(銅仁市雲水環境有限公司) in Tongren City, Guizhou Province, the PRC with a total investment amount of RMB337,100,000.

- On 30 September 2019, the Company entered into the Equity Transfer Agreement with Beijing OriginWater Technology Co., Ltd.* (北京碧水源科技股份有限公司) and Mr. Lin Kehong, pursuant to which the Company has conditionally agreed to acquire, and Beijing OriginWater Technology Co., Ltd. and Mr. Lin Kehong have conditionally agreed to sell, the Sale Shares (i.e. the total issued share capital of Liaocheng Chuanglian Environmental Technology Co., Ltd.* (聊城市創聯環保科技有限公司) at a consideration of RMB40,300,000.
- On 16 September 2019, Longhai City Construction Investment and Development Co., Ltd.* (龍海市城市建設投資開發有限公司), the Company, 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) entered into the joint venture agreement in relation to the establishment of the JV Company, namely Longhai Yunshui Environmental Protection Engineering Co., Ltd.* (龍海市雲水環保工程有限公司) in Longhai City, Fujian Province, the PRC with a total investment amount of RMB300,000,000.
- On 5 September 2019, the Company together with Harbin North Environmental Protection Engineering Co., Ltd.* (哈爾濱北方環保工程有限公司) and Tianjin Municipal Engineering Design & Research Institute* (天津市市政工程設計研究院) were formally awarded the PPP project in relation to the new wastewater treatment facilities in Yunzhong, Xinzhou City, which is granted by Housing and Urban — Rural development Bureau* (住房和城鄉建設局) of Xinzhou City, Shanxi Province, the PRC by way of public tender. The total estimated investment of the project amounted to approximately RMB202,139,000.
- At the beginning of 2019, the People’s Government of Shuangcheng District proposed to optimise and rectify the PPP project, and the project optimisation and rectification plan required revision to the Original Joint Venture Agreement entered into between the Company and Shuangcheng Tongda Water Supply and Drainage Co., Ltd.* (雙城市通達供排水有限公司) on 15 June 2018. On 16 August 2019, the Company and Shuangcheng Tongda Water Supply and Drainage Co., Ltd. entered into the Joint Venture Agreement, which is the revised document of the Original Joint Venture Agreement. For any inconsistency between the Joint Venture Agreement and the Original Joint Venture Agreement, the Joint Venture Agreement shall prevail. Pursuant to the terms of the Joint Venture Agreement, the registered capital of the JV Company shall be adjusted from RMB240,000,000 to RMB202,102,650.
- On 29 July 2019, the Company received a notice from Fujian Dongfei Environment Group Co., Ltd.* (福建東飛環境集團有限公司), an entity as to which 40% equity is held by the Company, that Fujian Dongfei 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), the PRC 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.

- 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) received a letter of acceptance for being formally awarded the PPP project in relation to 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), the PRC by way of public tender. The total estimated investment of the project amounted to approximately RMB1,184,001,000.
- On 8 March 2019, Qinyang Yunhuai Water has received the Notice on Alteration of Qinyang Urban Water System Comprehensive Treatment Works PPP Project* (《關於沁陽市城區水系綜合治理工程 PPP 項目變更的通知》) issued by Qinyang Housing and Urban-Rural Development Bureau* (沁陽市住房和城鄉建設局) that the cooperation content of the PPP project in relation to Qinyang urban water comprehensive treatment works in Qinyang City was reduced from eight sub-projects to three sub-projects due to the adjustment to the implementation plan of the project. The total budget investment amount of the project was then reduced from RMB1,767,973,000 to RMB737,847,500 and the registered capital of Qinyang Yunhuai Water was adjusted from RMB442,003,000 to RMB184,467,500 accordingly. The Company, Qinbei Construction and YCIH No.5 Construction entered into the Supplemental Agreement afresh according to the Notices, pursuant to which, the parties agreed to amend their respective amount of capital contribution in accordance with their respective shareholdings as stipulated in the Joint Venture Agreement based on the adjusted total investment amount and registered capital.
- 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 (a county-level city), Yunfu City, Guangdong Province, the PRC with a total investment amount of RMB219,864,800.
- On 25 January 2019, the Company entered into an investment agreement with Waytop Investment Group Limited* (匯鼎投資集團有限公司) and Xinde Investment Limited* (鑫德投資有限公司), both being the existing shareholders, Mr. Wang Xinyan and Mr. Chenjian, both being the beneficial owners and, Fujian Dongfei Environment Group Co., Ltd.* (福建東飛環境集團有限公司), as the target company, pursuant to which (i) the Company has conditionally agreed to acquire the 20% equity interests in Fujian Dongfei Environment Group Co., Ltd.* at a consideration of RMB120,000,000; and (ii) the Company has conditionally agreed to subscribe for 20% equity interests in Fujian Dongfei Environment Group Co., Ltd.* at a consideration of RMB200,000,000. On 8 February 2019, the parties to the investment agreement entered into a supplemental agreement to the effect that instead of the Chairman, the General Manager will be the legal representative who, subject to the approval of the Chairman, will be responsible for attending to the external affairs of the target company and representing the target company in execution of commercial and other corporate documents.

- 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 PPP project in relation to 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), the PRC by way of public tender. The total estimated investment of the Project amounted to approximately RMB326,581,500.

For details of the above-mentioned significant investments and acquisitions, please refer to the announcements published by the Company on 19 November 2019, 8 November 2019, 23 October 2019, 30 September 2019, 4 October 2019, 12 November 2019, 16 September 2019, 5 September 2019, 16 August 2019, 29 July 2019, 14 May 2019, 8 March 2019, 29 January 2019, 27 January 2019, 8 February 2019 and 2 January 2019, respectively.

Subsequent Events:

- On 13 March 2020, the Company together with China Municipal Engineering Central South Design and Research Institute Co., Ltd. (中國市政工程中南設計研究總院有限公司) and Jiangxi Construction Engineering Third Construction Co., Ltd. (江西建工第三建築有限責任公司), were awarded the PPP project in relation to the engineering construction of a new round of urban and rural sewage treatment infrastructures in Yingde City by the People's Government of Yingde City, Guangdong Province (廣東省英德市人民政府), China by way of public tender. The total estimated investment of the project amounted to approximately RMB 626,850,500.
- On 10 March 2020, Langfang Hyflux entered into (I) the Sale and Purchase Contract and (II) the Leaseback Contract with Greatwall Guoxing, pursuant to which, Greatwall Guoxing has agreed to, among other things, (i) acquire the Leased Assets from Langfang Hyflux at a consideration of RMB380,000,000, which will be paid to Langfang Hyflux in one lump sum and (ii) lease back the Leased Assets to Langfang Hyflux with the Lease Term for 60 months, and a total lease payment of approximately RMB458,236,994.99 shall be paid by Langfang Hyflux to Greatwall Guoxing in 10 installments at floating lease rate.
- On 6 March 2020, the Board held a meeting to pass the resolutions on (i) proposed granting the Debt Financing Instrument General Mandate to the Board and the Authorized Committee for the registration and issuance of Corporate Onshore and Offshore Debt Financing Instruments; and (ii) proposed provision of guarantees by the Group. The said resolutions will be proposed to the forthcoming extraordinary general meeting for Shareholders' consideration and approval.
- On 20 February 2020, Sanming Jinliya entered into the Finance Lease Agreement with ABC Financial Leasing, pursuant to which, ABC Financial Leasing has agreed to, among other things, (i) acquire the Leased Assets from Sanming Jinliya at a consideration of RMB300,000,000, which will be paid to Sanming Jinliya by installments and (ii) lease back the Leased Assets to Sanming Jinliya with the Lease Term for 8 years and a total lease payment of approximately RMB371,474,504.84, the principal and interest of which will be paid by Sanming Jinliya to ABC Financial Leasing in 32 equal installments.

For details of the above-mentioned subsequent events, please refer to the announcements published by the Company on 13 March 2020, 10 March 2020, 6 March 2020 and 20 February 2020, respectively.

The Impact of Outbreak of Novel Coronavirus

After the outbreak of Coronavirus Disease 2019 (“**COVID-19 outbreak**”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the world. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the consolidated financial position and operating results of the Group. As at the date on which this set of annual results announcement, the Group was not aware of any material adverse effects on the consolidated financial statements as a result of the COVID-19 outbreak.

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 2019 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. 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 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 new non-executive Directors.

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 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 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

On 29 March 2019, Mr. Feng Zhuangzhi resigned as a non-executive Director, with effective upon the conclusion of the 2019 annual general meeting.

Mr. Chan Yung was appointed as a non-executive Director of the second session of the Board with effect from 13 June 2019.

For details of the above-mentioned particulars of Directors and Supervisors, please refer to the announcements published by the Company on 29 March 2019 and 13 June 2019, respectively.

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 13 June 2019.

Audit Committee

Mr. Liu Shuen Kong (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. Yu Long (Chairman)
Mr. Yang Fang
Mr. Liu Shuen Kong
Mr. Hu Song
Mr. Ma Shihao
Mr. Huang Yi (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 2019.

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 2019 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 2019.

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

Kunming, the PRC
27 March 2020

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*