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YUNNAN WATER

雲南水務投資股份有限公司

Yunnan Water Investment Co., Limited*

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

(Stock code: 6839)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB3,038.6 million, representing an increase of approximately 17.1% over the corresponding period of last year.
- Gross profit was approximately RMB618.9 million, representing a decrease of approximately 16.2% over the corresponding period of last year.
- Loss attributable to the ordinary shareholders of the Company was approximately RMB298.0 million, and the basic loss per share was approximately RMB0.250; the net loss recorded by the Group during the Reporting Period was mainly attributable to the outbreak of COVID-19 pandemic which has had a material adverse effect on the business operations of the Group in the first half of 2020 and the increased financing costs of the Group in the first half of 2020.
- The Board does not recommend any distribution of interim dividend for the six months ended 30 June 2020.

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 2020 (the “**Reporting Period**”).

I. FINANCIAL INFORMATION OF THE GROUP

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

	Note	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	3	3,038,646	2,593,757
Cost of sales		(2,419,736)	(1,855,468)
Gross profit		618,910	738,289
Other income		45,395	34,326
Other gains/(losses) — net		2,691	(2,938)
Selling expenses		(22,975)	(20,905)
Administrative expenses		(230,543)	(191,774)
Impairment losses on financial assets		(38,023)	(13,872)
Operating profit		375,455	543,126
Finance income	4	22,211	22,179
Finance costs	4	(581,095)	(424,890)
Finance costs — net		(558,884)	(402,711)
Share of profit of investments accounted for using the equity method		14,439	15,499
(Loss)/profit before income tax		(168,990)	155,914
Income tax expense	5	(24,181)	(34,874)
(Loss)/profit for the period		(193,171)	121,040
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
— Currency translation differences		(53,696)	33,490
Total comprehensive income for the period — net of tax		(246,867)	154,530

		<u>Six months ended 30 June</u>	
		2020	2019
<i>Note</i>		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
(Loss)/profit attributable to:			
	— Ordinary shareholders of the Company	(297,951)	59,306
	— Holders of perpetual capital instruments	93,863	42,000
	— Non-controlling interests	10,917	19,734
		<u>(193,171)</u>	<u>121,040</u>
Total comprehensive income attributable to:			
	— Ordinary shareholders of the Company	(351,647)	92,796
	— Holders of perpetual capital instruments	93,863	42,000
	— Non-controlling interests	10,917	19,734
		<u>(246,867)</u>	<u>154,530</u>
(Loss)/earnings per share for (loss)/profit attributable to ordinary shareholders of the Company (expressed in RMB per share)			
	— Basic and diluted	6 (0.250)	0.050

Interim condensed consolidated balance sheet

		30 June 2020	31 December 2019
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		3,910,064	3,177,451
Investment properties		24,488	24,927
Right-of-use assets		317,864	270,683
Receivables under service concession arrangements	8	5,052,249	5,026,423
Contract assets		7,815,997	6,191,854
Amounts due from customers for contract work		4,853	4,401
Intangible assets		12,196,068	11,445,273
Investments accounted for using the equity method		1,150,456	1,096,017
Financial asset at fair value through other comprehensive income		4,675	4,675
Trade and other receivables	9	37,315	43,999
Prepayments	9	1,216,280	1,364,449
Deferred income tax assets		571,173	514,623
		32,301,482	29,164,775
Current assets			
Receivables under service concession arrangements	8	73,222	51,892
Inventories		122,267	103,485
Amounts due from customers for contract work		120	5,120
Contract assets		576,930	521,058
Trade and other receivables	9	6,725,226	7,126,742
Prepayments	9	215,571	234,934
Restricted cash		202,855	192,691
Cash and cash equivalents		2,011,705	2,468,435
		9,927,896	10,704,357
Total assets		42,229,378	39,869,132

		30 June	31 December
		2020	2019
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
EQUITY			
Equity attributable to ordinary shareholders of the Company			
Share capital		1,193,213	1,193,213
Other reserves		2,226,892	2,280,588
Retained earnings		798,582	1,275,515
		4,218,687	4,749,316
Perpetual capital instruments		410,000	2,610,000
Non-controlling interests		1,839,266	1,186,669
Total equity		6,467,953	8,545,985
LIABILITIES			
Non-current liabilities			
Borrowings	<i>11</i>	20,848,324	15,199,525
Trade and other payables	<i>10</i>	3,534,704	3,292,499
Lease liabilities		35,997	39,010
Deferred income		696,475	701,720
Deferred income tax liabilities		1,202,284	1,168,983
Provision		373,461	359,123
		26,691,245	20,760,860
Current liabilities			
Borrowings	<i>11</i>	5,338,209	6,419,405
Trade and other payables	<i>10</i>	3,281,190	3,675,541
Lease liabilities		13,253	11,600
Contract liabilities		110,731	106,676
Current income tax liabilities		326,797	349,065
		9,070,180	10,562,287
Total liabilities		35,761,425	31,323,147
Total equity and liabilities		42,229,378	39,869,132

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.

This interim condensed consolidated financial information for the six months ended 30 June 2020 (the "Interim Financial Information") is presented in Renminbi ("RMB"), unless otherwise stated. This Interim Financial Information was approved by the board of directors of the Company on 31 August 2020.

2. Basis of preparation and accounting policies

(a) Basis of preparation

This Interim Financial Information for the six months ended 30 June 2020 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 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

(b) Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements of the Group for the year ended 31 December 2019, except for the adoption of amended standards as set out below.

(i) Amended standards adopted by the Group

HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKFRS 3 (Amendments)	Definition of a Business
Conceptual Framework (Revised)	Revised Conceptual Framework for Financial Reporting
HKFRS 9, HKAS 39 and	Interest Rate Benchmark Reform
HKFRS 7 (Amendments)	

The adoption of the amended standards does not have significant impact on the Interim Financial Information.

2. Basis of preparation and accounting policies (Continued)

(b) Accounting policies (Continued)

(ii) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2020 and have not been early adopted:

HKFRS 17	Insurance contract ¹
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current ²
HKFRS 3 (Amendments)	Reference to the Conceptual Framework ²
HKAS 16 (Amendments)	Property, Plant and Equipment Proceeds Before Intended Use ²
HKAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract ²
Annual Improvements	Annual Improvements to HKFRS Standards 2018–2020 Cycle ²
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture ³

1. Effective for annual periods beginning on or after 1 January 2021 originally but extended to 1 January 2023

2. Effective for annual periods beginning on or after 1 January 2022

3. Effective date to be determined

3. 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.

3. Segment information (Continued)

(i) Segment results for the six months ended 30 June 2020 are as follows:

Six months ended 30 June 2020:

	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	1,760,911	405,387	343,221	621,545	49,634	—	3,180,698
Inter-segment revenue	—	—	(142,052)	—	—	—	(142,052)
Revenue from external customers	1,760,911	405,387	201,169	621,545	49,634	—	3,038,646
Revenue from contracts with customers							
— Recognised at a point in time	—	291,094	29,003	—	—	—	320,097
— Recognised over time	1,507,295	87,600	172,166	609,826	49,634	—	2,426,521
Revenue from other sources							
— Finance income	253,616	26,693	—	11,719	—	—	292,028
Gross profit	439,929	89,034	27,200	47,287	15,460	—	618,910
Other income							45,395
Other gains — net							2,691
Selling expenses							(22,975)
Administrative expenses							(230,543)
Impairment losses on financial assets							(38,023)
Finance costs — net							(558,884)
Share of profit/(loss) of investments accounted for using the equity method — net	4,527	1,120	1,501	11,485	—	(4,194)	14,439
Loss before income tax							(168,990)
Income tax expense							(24,181)
Loss for the period							(193,171)
Depreciation and amortisation	(74,365)	(108,672)	(6,026)	(85,964)	(6,749)	(14,761)	(296,537)

3. Segment information (Continued)

(i) Segment results for the six months ended 30 June 2020 are as follows: (Continued)

Six months ended 30 June 2019:

	Wastewater treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Construction and sales of equipment <i>RMB'000</i>	Solid waste treatment <i>RMB'000</i>	Others <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Gross segment revenue	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
Revenue from contracts with customers							
— Recognised at a point in time	—	304,335	159,342	—	—	—	463,677
— Recognised over time	762,259	331,495	118,906	642,798	28,020	—	1,883,478
Revenue from other sources							
— Finance income	211,557	31,319	—	3,726	—	—	246,602
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 profits/(loss) 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							<u>121,040</u>
Depreciation and amortisation	<u>(64,764)</u>	<u>(81,016)</u>	<u>(5,668)</u>	<u>(86,208)</u>	<u>(5,412)</u>	<u>(12,746)</u>	<u>(255,814)</u>

3. Segment information (Continued)

(ii) Segment assets and liabilities as at 30 June 2020 are as follows:

As at 30 June 2020:

	Wastewater treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Construction and sales of equipment <i>RMB'000</i>	Solid waste treatment <i>RMB'000</i>	Others <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	<u>17,448,185</u>	<u>7,729,237</u>	<u>5,096,290</u>	<u>8,096,714</u>	<u>898,603</u>	<u>2,960,349</u>	<u>42,229,378</u>
Segment assets include: Investments accounted for using the equity method	<u>240,552</u>	<u>47,710</u>	<u>46,862</u>	<u>515,519</u>	<u>34,534</u>	<u>265,279</u>	<u>1,150,456</u>
Segment liabilities	<u>7,574,607</u>	<u>1,159,292</u>	<u>2,676,973</u>	<u>2,775,766</u>	<u>845,681</u>	<u>20,729,106</u>	<u>35,761,425</u>

As at 31 December 2019:

	Wastewater treatment <i>RMB'000</i>	Water supply <i>RMB'000</i>	Construction and sales of equipment <i>RMB'000</i>	Solid waste treatment <i>RMB'000</i>	Others <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	<u>15,619,480</u>	<u>7,277,522</u>	<u>5,508,035</u>	<u>7,348,612</u>	<u>986,814</u>	<u>3,128,669</u>	<u>39,869,132</u>
Segment assets include: Investments accounted for using the equity method	<u>236,025</u>	<u>46,590</u>	<u>45,361</u>	<u>464,034</u>	<u>34,534</u>	<u>269,473</u>	<u>1,096,017</u>
Segment liabilities	<u>5,983,320</u>	<u>1,178,220</u>	<u>2,230,171</u>	<u>2,005,710</u>	<u>1,138,799</u>	<u>18,786,927</u>	<u>31,323,147</u>

4. Finance costs — net

Six months ended 30 June

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Finance income		
— Interest income	9,946	11,995
— Net exchange gains on financing activities	12,265	10,184
	<u>22,211</u>	<u>22,179</u>
Finance costs		
— Borrowing costs	(655,155)	(468,031)
Less: amounts capitalised on qualifying assets	81,436	49,189
	<u>(573,719)</u>	<u>(418,842)</u>
— Unwinding of provision	(7,376)	(6,048)
	<u>(581,095)</u>	<u>(424,890)</u>
Finance costs — net	<u>(558,884)</u>	<u>(402,711)</u>

5. Income tax expense

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Current income tax		
— Corporate income tax	47,430	72,169
Deferred income tax		
— Corporate income tax	(23,249)	(37,295)
	<u>24,181</u>	<u>34,874</u>

6. (Loss)/earnings per share

(a) Basic

The basic (loss)/earnings per share is calculated by dividing the loss attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares issued during the six months ended 30 June 2020.

	Six months ended 30 June	
	2020	2019
(Loss)/profit attributable to the ordinary shareholders of the Company (RMB'000)	(297,951)	59,306
Weighted average numbers of ordinary shares in issue (thousands)	<u>1,193,213</u>	<u>1,193,213</u>
Basic (loss)/earnings per share (RMB per share)	<u>(0.250)</u>	<u>0.050</u>

(b) Diluted

Diluted (loss)/earnings per share is the same as basic (loss)/earnings per share as there were no potential diluted ordinary shares outstanding during the six months ended 30 June 2020 (six months ended 30 June 2019: same).

7. Dividends

Pursuant to the resolution of the Company's Annual General Meeting held on 16 June 2020, the Company has declared 2019 dividends of RMB178,982,000 (2018 dividends: RMB178,982,000). The 2019 dividends were paid in July 2020.

No interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil) has been proposed by the Board of Directors of the Company.

8. 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 2020 RMB'000	31 December 2019 RMB'000
Receivables under service concession arrangements	5,125,471	5,078,315
Less: portion classified as current assets	<u>(73,222)</u>	<u>(51,892)</u>
Non-current portion	<u><u>5,052,249</u></u>	<u><u>5,026,423</u></u>

In respect of the Group's receivables under service concession arrangements, credit risks varied amongst the Group's projects operated in different locations of Mainland China. 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.

9. Trade and other receivables and prepayments

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Trade receivables		
— Related parties	2,386,590	2,891,572
— Local governments	1,090,317	935,935
— Third parties	1,608,732	1,835,486
Less: provision for impairment	<u>(122,772)</u>	<u>(85,804)</u>
	<u><u>4,962,867</u></u>	<u><u>5,577,189</u></u>
Other receivables		
— Related parties	33,116	36,281
— Third parties	1,799,427	1,589,085
Less: provision for impairment	<u>(32,869)</u>	<u>(31,814)</u>
	<u><u>1,799,674</u></u>	<u><u>1,593,552</u></u>
Total trade and other receivables	<u><u>6,762,541</u></u>	<u><u>7,170,741</u></u>
Less: non-current portion of other receivables	<u><u>(37,315)</u></u>	<u><u>(43,999)</u></u>
Current portion of trade and other receivables	<u><u>6,725,226</u></u>	<u><u>7,126,742</u></u>
Prepayments		
— Related parties	456,540	502,227
— Third parties	975,311	1,097,156
	<u><u>1,431,851</u></u>	<u><u>1,599,383</u></u>
Less: non-current portion of prepayments	<u><u>(1,216,280)</u></u>	<u><u>(1,364,449)</u></u>
Current portion of prepayments	<u><u>215,571</u></u>	<u><u>234,934</u></u>

9. Trade and other receivables and prepayments (Continued)

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 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Within one year	1,863,727	2,433,593
Over one year	3,221,912	3,229,400
	<u>5,085,639</u>	<u>5,662,993</u>

10. Trade and other payables

	As at	
	30 June 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Trade payables		
— Related parties	1,247,769	1,324,339
— Third parties	3,652,094	3,900,181
Notes payables	128,845	110,000
Other payables		
— Related parties	410,284	326,575
— Third parties	1,072,885	1,043,518
Staff welfare benefit payable	13,776	53,073
Dividend payables	191,422	12,440
Other taxes payable	98,819	197,914
	<u>6,815,894</u>	<u>6,968,040</u>
Less: non-current portion	<u>(3,534,704)</u>	<u>(3,292,499)</u>
Current portion	<u>3,281,190</u>	<u>3,675,541</u>

Trade payables are settled in accordance with agreed terms with suppliers. As at 30 June 2020, the aging analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice dates or contractual terms is as follows:

	As at	
	30 June 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Within one year	2,365,430	2,410,152
Over one year	2,534,433	2,814,368
	<u>4,899,863</u>	<u>5,224,520</u>

11. Borrowings

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Non-current		
Long-term bank borrowings	12,569,646	10,450,837
Corporate bonds and other borrowings	8,278,678	4,748,688
	<u>20,848,324</u>	<u>15,199,525</u>
Current		
Short-term bank borrowings	1,476,016	1,290,000
Current portion of long-term bank borrowings	736,053	1,157,247
Current portion of corporate bonds and other borrowings	3,126,140	3,972,158
	<u>5,338,209</u>	<u>6,419,405</u>
	<u>26,186,533</u>	<u>21,618,930</u>

INDUSTRY OVERVIEW

In the first half of 2020, the global economic and social activities have been hit hard by the COVID-19 pandemic. As the second quarter started, the overall situation of China's environmental protection industry remained complicated amid the increasing pressure from possible imported cases and lingering risks of domestic resurgence of the COVID-19 pandemic. Therefore, in March, the Ministry of Agriculture and Rural Affairs issued the Key Points of Green Development of Agriculture and Rural Areas in 2020* (《2020年農業農村綠色發展工作要點》), and several ministries jointly released a notice on promoting the governance of rural residential environment, to make the importance of rural environment governance explicit; in April, the Law on the Prevention and Control of Environment Pollution Caused by Solid Wastes (2020 Revision)* (《固體廢物污染環境防治法》) was officially adopted to further emphasize the principles of waste reduction, recycling and harmless disposal in preventing and controlling environment pollution caused by solid wastes, and to introduce a nationwide waste sorting system and severe punishment for environmental violations. In June, the Ministry of Ecology and Environment officially published the Outline of Ecological and Environmental Monitoring Plan (2020–2035)* (《生態環境監測規劃綱要(2020–2035)年》), stating that an innovative and modern ecological and environmental monitoring system must be in place to comprehensively advance the monitor of environmental quality, pollution sources and ecological conditions.

As the environmental protection industry plays an increasingly important role nowadays, the integration of water business continues to be on an increasing trend. Hence, comprehensive water service providers possessing technologies of integrated water supply, drainage and pipe network will become the most competitive market players. With the further promotion of the idea of green development, rural areas, where backward and inefficient wastewater treatment facilities with an urgent need of improvement, are strongly attracting water business investment. In recent years, intelligent water business has been flourishing in the water business industry, which is growing more advanced and sophisticated with the use of the internet, big data and other technologies. In light of the intelligent water business with more new technologies, water business enterprises are expected to enjoy enhanced competitiveness and broader market prospects.

During the COVID-19 pandemic in 2020, the government has paid much heed to hazardous wastes and announced policies to ensure their safety disposal. More such measures are on the horizon to fulfill the fast-growing demand for solid waste treatment. Following the revision of PRC solid waste law and the advancement of waste sorting policies, the demand for solid waste treatment involving the whole industrial chain is booming, the integration of industrial chain is gaining momentum and the need for offsite expansion is compelling. As a result, the focus of solid waste treatment technology is shifting from “reduction of waste” and “harmless treatment” to “waste recycling”, which is a popular development direction of the hazardous waste treatment industry.

The harmless treatment and recycling of sludge have been a heated niche market of environmental protection in recent years. With the introduction of China's sludge treatment policies and continuous technological breakthroughs, the sludge treatment industry will usher in a promising market.

In the first half of 2020, the environmental protection industry fluctuated due to the impact of the COVID-19 pandemic, and the environmental protection enterprises encountered unprecedented opportunities and challenges. The Group will continue to enhance its core competitiveness and pay close attention to the development of the industry, and will unify the business objectives and social responsibilities, contribute to the society overcome the COVID-19 pandemic, and make unremitting efforts to ensure its steady development.

DEVELOPMENT STRATEGIES AND PROSPECT

In the first half of 2020, the policy focus of environmental protection industry did not change significantly. Waste sorting, rural green development and intelligent water business are still the focus of the industry. The Group pays close attention to the industry dynamics. While promoting epidemic prevention and control work, it actively optimizes its organizational structure, pays close attention to the operation upgrading, innovates the industrial structure adjustment, and comprehensively gathers the advantages of capital, technology, resources and talents, so as to ensure the stable and healthy development of the Group.

The outbreak of the COVID-19 pandemic this year has a great impact on the Group's solid waste, tap water and construction and sales of equipment sectors. Industrial and commercial water consumption has been greatly reduced, and the lagging progress of the project has resulted in a decrease in the Group's revenue, The rising price of raw materials and the steep increase of staff quarantine and protection costs have led to a substantial increase in the Group's operating costs. On the other hand, the Group has made some achievements in financing, investment, construction, and operation in the midst of difficulties and challenges:

Optimize the debt structure

The Group actively adopts the strategy of long and short term debt structure adjustment which matches with the Group's business segment. It also adopts the strategy of comprehensive cost control, compares the financing cost horizontally and vertically and finds the optimal balance between the long-term income and the short-term income. The Group also selects financing projects or products based on various factors, and reduces the financial cost expenditure; In addition, the Group adopts the strategy of financing sinking to improve the project financing ability, focusing on cooperation with policy banks to obtain low-cost financing. During the COVID-19 pandemic, the Group actively sought to innovate its financing mode. The Group successfully issued "the first special PPN for epidemic prevention and control in the water industry in China" of RMB100 million and "the first epidemic prevention and control debt related to medical waste disposal" of RMB800 million.

Comprehensively promote the project construction

The Group attaches great importance to the construction progress of the projects under construction. In order to accelerate the completion of the projects under construction, the Group specially established a supervision group for projects under construction to determine the person in charge of the projects, so as to ensure the completion of the projects on schedule.

Pay attention to the improvement of quality and efficiency, and speed up the resumption of work and production

In order to improve the quality and efficiency of the Group's operation, in the first half of the year, the Group prioritized in promoting the construction of production execution information system and intelligent environment platform, and the project feasibility study was in good progress. The Group continuously improves the organizational structure of the Group, further optimizes its human management system, and implements performance management to facilitate the Group's operation; In addition, despite the outbreak of the COVID-19, the staff of the water supply, wastewater and solid waste projects affiliated to the Group are still dedicated to fully guarantee the safety of water supply, emission up to standard and standard treatment of solid waste. The projects under construction will resume and put into construction as soon as possible in compliance with the requirements of the PRC local government.

Looking forward, the Group will continue to adhere to the development goal of "based in Yunnan, covering the nation and going global, striving to be a leading integrated environmental services provider at the municipal level"* (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 further improve the operation and management standard, optimize the project expansion capability, improve the Group's core competitiveness in the environmental protection industry, seize the industry opportunities, overcome various challenges, and create greater value for its 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 Build-Operate-Transfer (the "BOT"), Build-Own-Operate (the "BOO"), Transfer-Operate-Transfer (the "TOT"), Transfer-Own-Operate (the "TOO"), Build and Transfer (the "BT"), Engineering-Procurement-Construction (the "EPC"), Rehabilitate-Operate-Transfer (the "ROT"), Operation and Maintenance (the "O&M") 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 30 June 2020, 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 a total daily treatment capacity of approximately 6,233,900 tonnes. As at 30 June 2020, 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 a total annual treatment capacity of approximately 4,045,500 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 comprehensive environmental treatment projects. During the Reporting Period, the Group had obtained the project of facilitating construction in relation to the new round of the urban and rural wastewater treatment in Yingde City, Guangdong, the concession project of Tailan river depression

reservoir engineering in Wensu County, Aksu Region, Xinjiang Uygur Autonomous Region, the project of facilitating construction of domestic wastewater treatment facilities in the entire Lufeng, Shanwei City, Guangdong, which 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 (e.g. BOT model). As at 30 June 2020, the Group had 32 projects in relation to the municipal comprehensive environmental treatment.

Wastewater Treatment Projects

As at 30 June 2020, the Group had a total of 124 concession wastewater treatment projects, including 7 BOO projects, 69 BOT projects, 2 TOO projects, 20 TOT projects, 2 ROT projects and 24 municipal comprehensive environmental treatment projects, with a total daily treatment capacity of approximately 3,389,100 tonnes, with a reduction of 1 TOT project, an addition of 1 municipal environment comprehensive treatment project, and an increase in the daily wastewater treatment capacity of approximately 8,700 tonnes or a growth rate of approximately 0.3% as compared to that as at 31 December 2019.

As at 30 June 2020, 91 concession projects with a total daily treatment capacity of approximately 2,473,000 tonnes had commenced commercial operation (including 1 municipal comprehensive environmental treatment project with a total daily wastewater treatment capacity of approximately 11,000 tonnes), with a reduction of 1 TOT project, an addition of 1 BOT project which commenced operation, and an decrease in total daily treatment capacity of approximately 5,000 tonnes as compared to that as at 31 December 2019. During the Reporting Period, the Group's effective wastewater treatment utilization rate was approximately 75.27%, and the average unit charge of wastewater treatment was approximately RMB1.42 per tonne.

As at 30 June 2020, 33 concession projects with total daily treatment capacity of approximately 916,100 tonnes had not commenced commercial operation (including 23 municipal comprehensive environmental treatment projects with a total daily treatment capacity of approximately 578,200 tonnes), with an addition of 2 municipal comprehensive environmental treatment projects as compared to that as at 31 December 2019, 1 municipal comprehensive environmental treatment project converted to EPC, 1 BOT project under construction converted to operation. The daily treatment capacity of the Group increased by approximately 13,700 tonnes.

Water Supply Projects

As at 30 June 2020, the Group had a total of 67 concession water supply projects with a total daily treatment capacity of approximately 2,460,100 tonnes, including 15 BOO projects, 36 BOT projects, 11 TOT projects and 5 municipal comprehensive environmental treatment projects, with an addition of 1 BOT project, and an increase in the total daily capacity of approximately 15,000 tonnes as compared to that as at 31 December 2019, representing a growth rate of approximately 0.6%.

As at 30 June 2020, 46 concession projects with a total daily capacity of approximately 1,530,000 tonnes had commenced commercial operation (including 1 municipal comprehensive environmental treatment project with a total daily treatment capacity of approximately 30,000 tonnes), with an addition of 8 BOT projects, and an increase in the total daily capacity of approximately 125,000 tonnes as compared to that as at 31 December 2019. During the Reporting Period, the Group's water supply for non-residential and special industries decreased, while the effective water supply utilization rate was approximately 63.59%, and the average unit charge of water supply was approximately RMB2.19 per tonne.

As at 30 June 2020, 21 concession projects with a total daily capacity of approximately 930,100 tonnes had not commenced commercial operation (including 4 municipal comprehensive environmental treatment projects with a total daily treatment capacity of approximately 409,700 tonnes), with an addition of 1 BOT project as compared to that as at 31 December 2019. 8 BOT projects under construction converted to operation, the total daily capacity of the Group increased by approximately 110,000 tonnes.

Solid Waste Treatment Projects

As at 30 June 2020, the Group had 23 solid waste treatment projects with a total annual treatment capacity of 4,045,500 tonnes, 8 of which with an annual treatment capacity of 1,169,400 tonnes had commenced commercial operation and 15 of them with an annual treatment capacity of 2,876,100 tonnes were under construction (including 3 municipal comprehensive environmental treatment projects with an annual treatment capacity of approximately 1,119,800 tonnes, with an reduction of 1 project as compared to that as at 31 December 2019, as the project was converted to BOT model). As compared to that as at 31 December 2019, 2 additional solid waste treatment projects were under construction and the total annual treatment capacity of the Group increased by 474,500 tonnes. During the Reporting Period, the Group's effective solid waste treatment utilization rate was approximately 79.36%.

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 2020, the Group had a total of 11 BT projects, which were either under construction and/or completed, among which the income of 10 BT projects was recognised as revenue during the Reporting Period.

During the Reporting Period, the Group had a total of 13 EPC projects, with an addition of 2 EPC project as compared to that as at 31 December 2019.

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 30 June 2020, the Group had 29 O&M projects, with a reduction of 1 wastewater treatment project, and 1 solid waste treatment project as compared to that as at 31 December 2019. These projects included 28 wastewater treatment projects with a total daily treatment capacity of approximately 379,700 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 RMB3,038.6 million, representing a period-on-period increase of approximately 17.1% as compared to that for the six months ended 30 June 2019. During the Reporting Period, the Group realized a net loss of approximately RMB193.2 million, representing a period-on-period decrease of approximately 259.7%, as compared to that for the six months ended 30 June 2019. Loss attributable to the ordinary shareholders of the Company was approximately RMB298.0 million, representing a period-on-period decrease of approximately 602.5% as compared to that for the six months ended 30 June 2019. Loss per share for the six months ended 30 June 2020 was approximately RMB0.250.

Revenue

Revenue of the Group increased from approximately RMB2,593.8 million for the six months ended 30 June 2019 to approximately RMB3,038.6 million for the Reporting Period, representing an increase of approximately 17.1%.

In respect of the business segments of the Group, revenue from the wastewater treatment business segment increased by approximately 80.8% from approximately RMB973.8 million for the six months ended 30 June 2019 to approximately RMB1,760.9 million for the Reporting Period. Revenue from the water supply segment decreased by approximately 39.2% from approximately RMB667.1 million for the six months ended 30 June 2019 to approximately RMB405.4 million for the Reporting Period. Revenue from solid waste treatment business segment decreased by approximately 3.9% from approximately RMB646.5 million for the six months ended 30 June 2019 to approximately RMB621.5 million for the Reporting Period. Revenue from construction and sales of equipment business segment decreased by approximately 27.7% from approximately RMB278.2 million for the six months ended 30 June 2019 to approximately RMB201.2 million for the Reporting Period. Revenue from other business increased by approximately 77.1% from approximately RMB28.0 million for the six months ended 30 June 2019 to approximately RMB49.6 million for the Reporting Period.

The increase in revenue from the wastewater treatment business segment was mainly attributable to the increase in construction revenue of the existing and new wastewater treatment projects in the course of construction during the Reporting Period.

The decrease in revenue from the water supply business segment was mainly attributable to the decrease in construction revenue as some water supply projects were completed during the Reporting Period.

The decrease in revenue from the solid waste treatment business segment was mainly attributable to the severe impact of the outbreak of COVID-19 pandemic on the environmental protection industry during the Reporting Period which resulted in nationwide suspension of work and production which led to a decrease in supply of the environmental protection market and a decrease 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 severe impact of the outbreak of COVID-19 pandemic on the environmental protection industry which resulted in the decrease in scale of EPC construction services and equipment sales during the Reporting Period.

The increase in revenue from the other business segment was mainly attributable to an increase 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 RMB2,419.7 million, representing a period-on-period increase of approximately RMB564.2 million or 30.4% as compared to approximately RMB1,855.5 million for the six months ended 30 June 2019. The increase in cost of sales was mainly attributable to (i) the increase in cost for construction which was in line with the increase in construction revenue of the existing and new wastewater treatment projects in the construction period; and (ii) the increase in goods and materials relating to epidemic prevention and disinfection as well as a rise in labor costs caused by the outbreak of COVID-19 pandemic during the Reporting Period leading to an increase in operating costs of solid waste treatment projects.

Gross Profit Margin

During the Reporting Period, gross profit margin of the Group was approximately 20.4%, representing a decrease of approximately 8.1% as compared to approximately 28.5% for the six months ended 30 June 2019.

Other Income

During the Reporting Period, the Group recorded other income of approximately RMB45.4 million, representing a period-on-period increase of approximately RMB11.1 million or an increase rate of approximately 32.4% as compared with approximately RMB34.3 million for the six months ended 30 June 2019. The increase in other income was mainly attributable to an increase in other non-operating income during the Reporting Period.

Selling Expenses

During the Reporting Period, selling expenses of the Group increased to approximately RMB23.0 million, representing a period-on-period increase of approximately RMB2.1 million or 10.0%, from approximately RMB20.9 million for the six months ended 30 June 2019.

Administrative Expenses

During the Reporting Period, administrative expenses of the Group increased to approximately RMB230.5 million, representing a period-on-period increase of approximately RMB38.7 million or 20.2% from approximately RMB191.8 million for the six months ended 30 June 2019. The increase in administrative expenses was primarily due to the Group's prudent provision for some impairment losses on non-financial assets during the Reporting Period.

Finance Costs — net

Net finance costs increased by approximately RMB156.2 million from approximately RMB402.7 million for the six months ended 30 June 2019 to approximately RMB558.9 million for the Reporting Period, representing an increase of approximately 38.8%. 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 5.36% per annum, representing a period-on-period increase of 0.09% as compared to 5.27% for the six months ended 30 June 2019. The increase in the average borrowing rate was due to a nationwide increase in the interest rate on borrowing during the Reporting Period.

(Loss)/profit Before Income Tax

As a result of the foregoing the Group recorded a loss before income tax of approximately RMB169.0 million for the six months ended 30 June 2020, representing a decrease of approximately 208.4% as compared to a profit before income tax of approximately RMB155.9 million for the six months ended 30 June 2019.

Income Tax Expenses

Income tax expenses decreased by approximately RMB10.7 million from approximately RMB34.9 million for the six months ended 30 June 2019 to approximately RMB24.2 million for the Reporting Period, representing a decrease of approximately 30.7%. The decrease is caused by a change in the profitability of the Group's subsidiaries in respective countries and regions as a result of different corporate income tax rates being applied during the Reporting Period.

(Loss)/profit For the Reporting Period

As a result of the foregoing, (loss)/profit for the Reporting Period decreased by approximately RMB314.2 million from a net profit of approximately RMB121.0 million for the six months ended 30 June 2019 to a net loss of approximately RMB193.2 million for the Reporting Period, representing a decrease of approximately 259.7%.

Receivables under Service Concession Arrangements

The Group's receivables under service concession arrangements increased by approximately RMB47.2 million from approximately RMB5,078.3 million as at 31 December 2019 to approximately RMB5,125.5 million as at 30 June 2020, representing an increase of approximately 0.9%.

Trade and Other Receivables and Prepayments

The Group's trade and other receivables and prepayments decreased by approximately RMB575.7 million from approximately RMB8,770.1 million as at 31 December 2019 to approximately RMB8,194.4 million as at 30 June 2020, representing a decrease of approximately 6.6%. Such decrease was primarily due to (i) the decrease in the amounts due from related parties and project outsourcers due to the Group's strengthened collection of receivables during the Reporting Period; (ii) the decrease in scale of EPC construction services and equipment sales during the Reporting Period.

Cash and Cash Equivalents

The Group's total cash balance decreased by approximately RMB456.7 million from approximately RMB2,468.4 million as at 31 December 2019 to approximately RMB2,011.7 million as at 30 June 2020, representing a decrease of approximately 18.5%. Such decrease was primarily due to the net cash used in operating and investment activities which was partially offset by the net cash generated from financing activities during the Reporting Period.

Trade and Other Payables

The Group's trade and other payables decreased by approximately RMB152.1 million from approximately RMB6,968.0 million as at 31 December 2019 to approximately RMB6,815.9 million as at 30 June 2020, representing a decrease of approximately 2.2%. Such decrease was primarily due to (i) the payment of large amount for equipment procurement and construction and installation during the Reporting Period; and (ii) the decrease in dividends payable for ordinary shares and payables for project cooperation, which was offset by the increase in the payment for equipment procurement.

Borrowings

As at 30 June 2020, the Group had borrowings of approximately RMB26,186.5 million (31 December 2019: approximately RMB21,618.9 million). As at 30 June 2020, the Group had unsecured borrowings of approximately RMB14,779.8 million (31 December 2019: approximately RMB12,885.1 million), and secured borrowings of approximately RMB11,406.7 million (31 December 2019: approximately RMB8,733.8 million).

Pledge of Assets

As at 30 June 2020, borrowings of approximately RMB11,406.7 million (31 December 2019: approximately RMB8,733.8 million) were secured by the Group's receivables under service concession arrangements, contract assets, land use rights, property, plant and equipment, intangible assets and the Company's investments in subsidiaries and a joint venture.

Capital Commitments

The Group's capital commitments increased by approximately RMB1,597.3 million from approximately RMB12,655.0 million as at 31 December 2019 to approximately RMB14,252.3 million as at 30 June 2020, representing an increase of approximately 12.6%. Such increase was primarily due to the Group's increased investments in several municipal comprehensive environmental treatment projects during the Reporting Period.

Gearing Ratio

The Group's gearing ratio (calculated by net debt divided by total capital) increased from approximately 69.14% as at 31 December 2019 to approximately 78.89% as at 30 June 2020, representing an increase of approximately 9.8%.

INTERIM DIVIDEND

The Board does not recommend any distribution of interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

- On 13 March 2020, the Company together with Central and Southern China Municipal Engineering 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 Limited Liability Company* (江西建工第三建築有限責任公司) were awarded the project of the facilitating construction in relation to the new round of the urban and rural wastewater treatment in Yingde City, which was granted by the People's Government of Yingde City, Guangdong Province by way of public tender. The total estimated investment of the project amounted to approximately RMB626,850,500.
- On 7 April 2020, the Company entered into the property share transfer agreement with Eastmoney Securities, pursuant to which, the Company has agreed to acquire, and Eastmoney Securities has agreed to transfer the equity interests (representing 79.29% of the property share in Jinan Yuanchuang Yunteng Equity Investment Partnership (Limited Partnership) as at the date of the announcement) at the transfer consideration of RMB290,000,000.

- On 21 April 2020, the Company, Southern China Municipal Engineering 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 Limited Liability Company* (江西建工第三建築有限責任公司) entered into the JV agreement in relation to the establishment of a joint venture company — Yingde Yunshui Water Co., Ltd.* (英德雲水水務有限公司) in Yingde City, Guangdong Province. The registered capital of the joint venture company is RMB219,397,700, and the Company’s capital contribution is RMB219,353,900.
- On 22 April 2020, 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 Powerchina Northwest Engineering Corporation Limited* (中國電建集團西北勘測設計研究院有限公司) were formally awarded the concession project of Tailan River depression reservoir engineering in Wensu County, which was granted by the People’s Government of Wensu County, Aksu Region, Xinjiang Uygur Autonomous Region (新疆維吾爾自治區阿克蘇地區溫宿縣) by way of public tender. The total estimated investment of the project amounted to approximately RMB1,355,183,900.
- On 14 May 2020, the Company together with Hunan No. 8 Engineering Co., Ltd.* (湖南省第八工程有限公司) and Guangzhou Public Utilities Planning & Design Institute Co., Ltd.* (廣州市公用事業規劃設計院有限公司) were formally awarded the project of facilitating the construction of domestic wastewater treatment facilities in Lufeng by the People’s Government of Lufeng City, Shanwei City, Guangdong Province by way of public tender. The total estimated investment of the project amounted to approximately RMB1,592,590,000.
- On 17 June 2020, the Company entered into the capital increase agreement with Yunnan Asset Management Co., Ltd.* (雲南省資產管理有限公司) (“YAM”) and Yunnan Yunshui Construction & Engineering Co., Ltd.* (雲南雲水建設工程有限公司) (“**Yunshui Construction**”). Pursuant to which, YAM has agreed to subscribe for certain interests of Yunshui Construction (representing 19.38% of the registered capital of Yunshui Construction on a fully-diluted basis as enlarged by the capital increase) at the subscription consideration of RMB300,000,000 (comprising newly increased registered capital of approximately RMB134,573,800 and capital reserve of approximately RMB165,426,200).

For details of the above-mentioned significant investments and acquisitions, please refer to the announcements published by the Company on 13 March 2020, 7 April 2020, 21 April 2020, 22 April 2020, 14 May 2020 and 17 June 2020, respectively.

Subsequent Events

- On 16 July 2020, the EGM held a meeting to pass the resolutions on (i) poll results of the extraordinary general meeting; (ii) appointment of director; (iii) election of chairman and; (iv) changes in the composition of the board committees.

- On 31 July 2020, the Board has resolved to dispose of the Disposal Interest, being the 40% equity interest held by the Company in Fujian Dongfei Environment Group Co., Ltd.. Since the Company is a State-owned enterprise, the Disposal Interest constitutes a State-owned asset and the disposal of which is required to undergo the process of Public Tender through an approved equity exchange in accordance with the relevant PRC laws and regulations governing the disposal of State-controlled assets. The Potential Disposal will be carried out through YNEX and the successful bidder will enter into the Equity Transaction Agreement with the Company according to the relevant rules and regulations of YNEX. The Minimum Consideration, being the initial bidding price for the Disposal Interest, is RMB374,400,000, which was determined based on the appraised value of the Disposal Interest on 31 December 2019. The final Consideration will depend on the final bid price of the Public Tender, but will not be less than the Minimum Consideration in any event.
- On 7 August 2020, (I) the Company, Shandong Qingzheng New Material Industrial Park Water Treatment Co., Ltd. (“**Shandong Qingzheng**”) and AVIC International Leasing Co., Ltd., (“**AVIC International Leasing**”) entered into Finance Lease Agreement A, pursuant to which, AVIC International Leasing has agreed (among others) (i) to purchase the Leased Asset A from Shandong Qingzheng at the consideration of RMB90,000,000 and pay the consideration to Shandong Qingzheng in two installments and (ii) to lease back the Leased Asset A to Shandong Qingzheng, with the Lease Term of five years (60 months) and the total rent of RMB104,724,895.00 estimated by the matching principal method, which will be paid by Shandong Qingzheng to AVIC International Leasing in 10 installments; (II) the Company, Shandong Binzhou Binxin Environment Investment Co., Ltd. (“**Shandong Binxin**”) and AVIC International Leasing entered into Finance Lease Agreement B, pursuant to which, AVIC International Leasing has agreed (among others) (i) to purchase the Leased Asset B from Shandong Binxin at the consideration of RMB160,000,000 and pay the consideration to Shandong Binxin in two installments and (ii) to lease back the Leased Asset B to Shandong Binxin, with the Lease Term of five years (60 months) and the total rent of RMB186,177,591.12 estimated by the matching principal method, which will be paid by Shandong Binxin to AVIC International Leasing in 10 installments.
- On 20 August 2020, the Company has received the “Notice of Yunnan Metropolitan Construction Investment Group Co., Ltd.* (雲南省城市建設投資集團有限公司) on Completion of the Industrial and Commercial Registration of Changes for the Transfer of Equity Interests” (the “**Notice**”) issued by the controlling shareholder Yunnan Metropolitan Construction Investment Group Co., Ltd.(“**YMCI**”).
- On 25 August 2020, the Company published the announcement in relation to the postponement in election of board of directors and supervisory committee for the new session, reference is made to the term of office of the second session of the board of directors and the supervisory committee of the Company will expire on 28 August 2020. As the nomination of the candidates for directors of the third session of the board of directors and the candidates for supervisors of the third session of the supervisory committee of the Company has not been completed, in order to maintain the continuity of the work of the board of directors and the supervisory committee, the election of the board of directors and the supervisory committee of the Company for the new session will be postponed, and the term of office of members of special committees under the second session of board of directors and senior management of the Company will be

postponed accordingly. The Company will complete the election of the board of directors and the supervisory committee for the new session as soon as possible and will perform the relevant information disclosure obligation in a timely manner.

For details of the above-mentioned significant investments and acquisitions, please refer to the announcements published by the Company on 16 July 2020, 31 July 2020, 7 August 2020, 20 August 2020 and 25 August 2020, respectively.

NOMINATION COMMITTEE

The Nomination Committee currently consists of one non-executive Director, Mr. Li Jialong (as chairman), and one independent non-executive Director, 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. Li Jialong as the 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 12 June 2020.

REMUNERATION COMMITTEE

The Remuneration Committee currently consists of one executive Director, Mr. Yang Fang and one independent non-executive Director, 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.

During the Reporting Period, the Remuneration Committee had convened one meeting, to discuss the matter in relation to establishment of the reward and punishment measures for collection of account receivables for operating projects.

AUDIT COMMITTEE

The Audit Committee currently consists of two independent non-executive Directors, Mr. Liu Shuen Kong (as chairman) and Mr. Ma Shihao.

The principal responsibilities of the Audit Committee include reviewing and supervising the financial reporting process, risk management and internal control system of the Company, including making recommendations on appointing and changing the external auditor and its terms of engagement; reviewing and monitoring external auditor's independence and audit process objectively; monitoring the integrity of the Company's financial statements, annual report and accounts and half-year report; overseeing of the Company's financial reporting system, risk management and internal control system; attending to other matters that the Board has authorized it to deal with. Terms of reference of the Audit Committee have been published on the website of the Company.

During the Reporting Period, the Audit Committee had convened one meeting, to discuss the annual results of 2019 of the Group, the proposed distribution of final dividend, the re-appointment of auditor 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, two independent non-executive Directors, Mr. Liu Shuen Kong 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 10 June 2020, Mr. Yang Tao resigned as a non-executive Director, Chairman, and chairman and member of the Nomination Committee, with effective from the conclusion of the EGM convened on 16 July 2020.

Mr. Hu Song (“**Mr. Hu**”) has tendered his resignation as an independent non-executive Director, a member of the Audit Committee, the Nomination Committee and the Compliance Committee, and a member and the chairman of the Remuneration Committee with effect from 14 July 2020.

Following the resignation of Mr. Hu, the Board comprises two independent non-executive Directors and therefore fails to meet the requirements of having:

- (i) at least three independent non-executive directors on the Board under Rule 3.10(1) of the Listing Rules;
- (ii) independent non-executive directors who represent at least one-third of the Board under Rule 3.10A of the Listing Rules;
- (iii) the audit committee comprising only non-executive directors with a minimum of three members under Rule 3.21 of the Listing Rules;
- (iv) the remuneration committee chaired by an independent non-executive director and comprising a majority of independent non-executive directors under Rule 3.25 of the Listing Rules; and
- (v) the nomination committee comprising a majority of independent non-executive directors under code provision A.5.1 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

In order to comply with the Listing Rules and the terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee, the Board is in the process of identifying suitable candidate(s) to fill the vacancy of the positions of independent non-executive Director and the member of the Audit Committee, the Remuneration Committee and the Nomination Committee and will use its best endeavours to ensure that the suitable candidate(s) is/are appointed as soon as possible and, in any event, within three months from the effective date of the resignation of Mr. Hu, pursuant to Rules 3.11, 3.23 and 3.27 of the Listing Rules.

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.

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 2020.

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 2020.

DIRECTORS’ INTERESTS IN COMPETING BUSINESS

During the six months ended 30 June 2020, 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 2020, 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 2020 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 2020 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 2020 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*
Li Jialong
Chairman

Kunming, the PRC
31 August 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. Li Jialong (Chairman), Mr. He Yuanping, Ms. Li Bo and Mr. Chen Yong, and the independent non-executive Directors are Mr. Liu Shuen Kong and Mr. Ma Shihao.

* *For identification purposes only*