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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 2022

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB3,789 million, representing a decrease of approximately 28% compared with the year ended 31 December 2021
- Loss for the year was approximately RMB1,158 million, representing an increase of approximately 10% compared with the year ended 31 December 2021
- Loss attributable to ordinary shareholders of the Company was approximately RMB1,060 million, representing an increase of approximately 6% compared with the year ended 31 December 2021
- Basic loss per share was approximately RMB0.889, representing an increase of RMB0.049 compared with the basic loss per share for the year ended 31 December 2021
- The Board does not recommend the distribution of final dividend for the year ended 31 December 2022

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 2022 (the “**Reporting Period**”) together with the comparative figures as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	Year ended 31 December	
		2022 RMB'000	2021 RMB'000
Revenue	3	3,789,322	5,280,743
Cost of sales and services		<u>(3,035,474)</u>	<u>(3,964,179)</u>
Gross profit		753,848	1,316,564
Other income	4	1,358,701	54,080
Other (losses)/gains — net		(95,273)	164,333
Selling expenses		(42,031)	(48,374)
Administrative expenses		(1,029,308)	(650,674)
Net impairment losses on financial and contract assets		<u>(619,678)</u>	<u>(419,125)</u>
Operating profit		326,259	416,804
Finance income	5	16,806	10,932
Finance expenses	5	<u>(1,348,984)</u>	<u>(1,537,186)</u>
Finance costs — net	5	(1,332,178)	(1,526,254)
Share of profit of investments accounted for using the equity method		<u>23,560</u>	<u>78,517</u>
Loss before income tax		(982,359)	(1,030,933)
Income tax expenses	6	<u>(175,990)</u>	<u>(24,321)</u>
Loss for the year		(1,158,349)	(1,055,254)
Other comprehensive expense			
<i>Items that may be reclassified to profit or loss</i>			
— Exchange differences on translation of foreign operations		<u>(231,823)</u>	<u>(22,147)</u>
Total comprehensive expense for the year, net of tax		<u>(1,390,172)</u>	<u>(1,077,401)</u>

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

	Year ended 31 December	
	2022	2021
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loss attributable to:		
— Ordinary shareholders of the Company	(1,060,342)	(1,001,876)
— Holders of perpetual capital instruments	107,555	113,587
— Non-controlling interests	(205,562)	(166,965)
	<u>(1,158,349)</u>	<u>(1,055,254)</u>
Total comprehensive (expense)/income attributable to:		
— Ordinary shareholders of the Company	(1,270,446)	(1,024,023)
— Holders of perpetual capital instruments	107,555	113,587
— Non-controlling interests	(227,281)	(166,965)
	<u>(1,390,172)</u>	<u>(1,077,401)</u>
Loss per share for loss attributable to ordinary shareholders of the Company		
— Basic and diluted	7 RMB(0.889)	RMB(0.840)
	<u>RMB(0.889)</u>	<u>RMB(0.840)</u>

Consolidated Statement of Financial Position

		As at 31 December	
		2022	2021
	Notes	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		4,208,587	4,250,964
Investment properties		22,270	23,115
Right-of-use assets		290,352	333,390
Receivables under service concession arrangements	9	7,330,827	6,406,389
Contract assets		11,954,436	12,700,091
Intangible assets		11,461,398	12,409,296
Investments accounted for using the equity method		1,090,769	1,084,751
Financial asset at fair value through other comprehensive income		4,675	4,675
Trade and other receivables	10	258,059	914,561
Prepayments	10	1,207,570	1,463,032
Deferred income tax assets		329,935	872,127
		<u>38,158,878</u>	<u>40,462,391</u>
Current assets			
Receivables under service concession arrangements	9	211,255	86,731
Inventories		129,920	116,043
Contract assets		233,236	486,042
Trade and other receivables	10	6,595,713	6,427,612
Prepayments	10	252,334	145,841
Restricted cash		82,789	272,533
Cash and cash equivalents		600,642	428,427
		<u>8,105,889</u>	<u>7,963,229</u>
Assets classified as held for sale		403,737	—
		<u>8,509,626</u>	<u>7,963,229</u>
Total assets		<u><u>46,668,504</u></u>	<u><u>48,425,620</u></u>

Consolidated Statement of Financial Position (Continued)

	As at 31 December	
	2022	2021
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Equity		
Equity attributable to ordinary shareholders of the Company		
Share capital	1,193,213	1,193,213
Other reserves	2,560,971	2,752,075
Retained earnings	(1,010,428)	68,914
	<u>2,743,756</u>	<u>4,014,202</u>
Perpetual capital instruments	—	1,622,300
Non-controlling interests	1,744,560	1,961,636
	<u>4,488,316</u>	<u>7,598,138</u>
Liabilities		
Non-current liabilities		
Lease liabilities	26,820	30,956
Borrowings	11 26,747,825	7,970,439
Trade and other payables	12 49,900	2,833,401
Deferred income	814,430	817,160
Deferred income tax liabilities	805,290	1,326,435
Provision	527,121	526,247
	<u>28,971,386</u>	<u>13,504,638</u>
Current liabilities		
Contract liabilities	101,162	87,344
Lease liabilities	12,188	14,315
Borrowings	11 3,384,810	20,685,107
Trade and other payables	12 8,920,186	5,974,439
Current taxation	570,419	561,639
	<u>12,988,765</u>	<u>27,322,844</u>
Liabilities associated with assets classified as held for sale	220,037	—
	<u>13,208,802</u>	<u>27,322,844</u>
Total liabilities	<u>42,180,188</u>	<u>40,827,482</u>
Total equity and liabilities	<u>46,668,504</u>	<u>48,425,620</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

1. General information and basis of presentation

1.1 General information

Yunnan Water Investment Co., Limited (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 Company and its subsidiaries (together the “**Group**”) are principally engaged in the development, design, construction, operation and maintenance of municipal water supply, wastewater treatment and solid waste treatment facilities. 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. Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 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 also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets 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

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

judgement in the process of applying the Group's accounting policies.

2.1.1 *Going concern basis*

The Group reported a net loss of RMB1,158,349,000 for the year ended 31 December 2022 and the Group's current liabilities exceeded its current assets by RMB4,699,176,000 as at 31 December 2022. As at the same date, the Group's total borrowings amounted to RMB30,132,635,000, of which current borrowings amounted to RMB3,384,810,000, while its cash and cash equivalents amounted to RMB600,642,000 only. The Group had capital commitments of approximately RMB9,347,286,000 which were mainly related to various concession projects and construction projects of the Group.

Although the Group settled its overdue loans during the year ended 31 December 2022, in respect of those overdue loans, the lenders previously had applied to the courts in the PRC for property preservation measures and the Group's equity interests in Zhejiang Qianjiang Biochemical Co. Ltd. ("**Qianjiang Biochemical**"), which is the Group's interest in an associate, were frozen by the court orders. As at 31 December 2022 and the date of the consolidated financial statements were authorised for issue, 7.27% equity interests with carrying value of RMB348,856,000 and 2.52% equity interests with carrying value of RMB120,838,000 have not yet been released from the property preservation respectively.

The above conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The consolidated financial statements have been prepared on the assumptions that the Group will continue to operate as a going concern notwithstanding the conditions prevailing as at 31 December 2022 and subsequently thereto up to the date when the consolidated financial statements are authorised for issue. In order to mitigate the liquidity pressure, to improve its financial position, and to sustain the Group as a going concern, certain plans and measures have been and will be taken by the Group which include, but are not limited to, the following:

- (i) The Group has plans to divest certain of the Group's concession projects and construction projects. In the meantime, the Group is also actively looking for strategic investors to invest in certain existing projects of the Group so as to enhance the capital structure and reduce overall financing

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Going concern basis (continued)

expenses of the Group;

- (ii) The Directors are of the view that they have the ability to manage the progress of the projects from time to time and defer the payment schedule of the borrowings in these projects, if necessary. The Group has unutilised project loan facilities from banks to provide financing of up to RMB9,252,242,000 to satisfy part of the construction cost payable and committed capital expenditure in the next twelve months from 31 December 2022. The Group has also initiated the process to obtain new project loans to fund the Group's existing and new concession projects and construction projects. The Directors believe that these unutilised facilities will continue to be available to the Group and they are confident that they will be able to obtain such project loans from banks and other financial institutions as and when needed;
- (iii) The Group will actively obtain additional new sources of financing as and when needed;
- (iv) The borrowings from Caiyun International Investment Limited (“**Caiyun Investment**”), a fellow subsidiary of the Company, amounting to RMB961,717,000 as at 31 December 2022 were classified as current liabilities. The Group is in active negotiations with Caiyun Investment for renewal and extension of the relevant borrowings. The Directors are confident that the renewal and extension of the relevant borrowings will be completed within reasonable time period; and
- (v) The Group is actively communicating with the lenders and has requested them to apply for release of the remaining 2.52% frozen equity interests in Qianjiang Biochemical with carrying value of RMB120,838,000 as at the date of the consolidated financial statements were authorised for issue.

The directors of the Company (“**Directors**”) have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of not less than twelve months from 31 December 2022. On the basis of the successful implementation of the plans and measures described above in the foreseeable future and after assessing the Group's current and forecasted cash positions, Directors are of the opinion that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2022. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 *Going concern basis (continued)*

Should the Group fail to achieve the above-mentioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

2.1.2 *Amendments to HKFRSs that are mandatorily effective for the current year*

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

The adoption of the amended standards does not have significant impact on the financial information.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.3 *New and amendments to HKFRSs in issue but not yet effective*

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKFRS 16 Amendments to HKAS 1	Lease Liability in a Sale and Leaseback ³ Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

1. *Effective for annual periods beginning on or after 1 January 2023.*
2. *Effective for annual periods beginning on or after a date to be determined.*
3. *Effective for annual periods beginning on or 1 January 2024.*

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

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;
- (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.

3. Segment information (continued)

(i) Segment results and capital expenditure for the year ended 31 December 2022 are as follows:

Year ended 31 December 2022:

	Wastewater treatment project construction and operation RMB'000	Water supply project construction and operation RMB'000	Construction and sales of equipment RMB'000	Solid waste treatment project construction and operation RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
Gross segment revenue	2,289,334	660,200	252,654	716,897	76,735	—	3,995,820
Inter-segment revenue	—	—	(206,498)	—	—	—	(206,498)
Revenue from external customers	2,289,334	660,200	46,156	716,897	76,735	—	3,789,322
Revenue from contracts with customers							
— Recognised at a point in time	—	586,870	27,118	—	—	—	613,988
— Recognised at over time	1,723,766	53,881	19,038	667,792	76,735	—	2,541,212
Revenue from other sources							
— Finance income	565,568	19,449	—	49,105	—	—	634,122
Gross profit	704,093	14,575	1,154	18,394	15,632	—	753,848
Other income							1,358,701
Other gains — net							(95,273)
Selling expenses							(42,031)
Administrative expenses							(1,029,308)
Net impairment losses on financial and contract assets							(619,678)
Finance costs — net							(1,332,178)
Share of (loss)/profit of investments accounted for using the equity method — net	(12,124)	—	—	(324)	36,008	—	23,560
Loss before income tax							(982,359)
Income tax expenses							(175,990)
Loss for the year							(1,158,349)
Depreciation and amortisation	(114,153)	(368,672)	(16,912)	(297,942)	(17,011)	(12,948)	(827,638)
Segment assets	18,080,978	15,060,370	5,166,026	7,614,797	726,072	20,261	46,668,504
Segment assets include: Investments accounted for using the equity method	57,964	—	—	27,076	1,005,729	—	1,090,769
Segment liabilities	11,301,511	17,207,371	5,894,442	5,032,528	1,732,637	1,011,699	42,180,188
Additions to non-current assets (other than financial instruments and deferred income tax assets)	1,524,580	156,055	11,289	163,412	24,490	8,973	1,888,799

3. Segment information (continued)

(i) Segment results and capital expenditure for the year ended 31 December 2022 are as follows (continued):

Year ended 31 December 2021:

	Wastewater treatment project construction and operation <i>RMB'000</i>	Water supply project construction and operation <i>RMB'000</i>	Construction and sales of equipment <i>RMB'000</i>	Solid waste treatment project construction and operation <i>RMB'000</i>	Others <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Gross segment revenue	3,387,304	921,809	185,511	754,765	79,798	—	5,329,187
Inter-segment revenue	—	—	(48,444)	—	—	—	(48,444)
Revenue from external customers	3,387,304	921,809	137,067	754,765	79,798	—	5,280,743
Revenue from contracts with customers							
— Recognised at a point in time	—	700,091	18,550	—	—	—	718,641
— Recognised at over time	2,697,007	172,748	118,517	695,990	79,798	—	3,764,060
Revenue from other sources							
— Finance income	690,297	48,970	—	58,775	—	—	798,042
Gross profit	1,089,813	161,201	(1,574)	45,154	21,970	—	1,316,564
Other income							54,080
Other gains — net							164,333
Selling expenses							(48,374)
Administrative expenses							(650,674)
Net impairment losses on financial and contract assets							(419,125)
Finance costs — net							(1,526,254)
Share of profit/(loss) of investments accounted for using the equity method — net	36,370	8,862	16,457	(2,389)	1,928	17,289	78,517
Loss before income tax							(1,030,933)
Income tax expenses							(24,321)
Loss for the year							(1,055,254)
Depreciation and amortisation	(164,981)	(251,987)	(12,703)	(204,445)	(6,487)	(22,725)	(663,328)
Segment assets	23,136,847	8,425,005	5,985,077	8,418,512	1,772,449	687,730	48,425,620
Segment assets include: Investments accounted for using the equity method	58,287	—	—	39,200	987,264	—	1,084,751
Segment liabilities	12,946,848	1,192,607	5,288,207	3,510,081	767,151	17,122,588	40,827,482
Additions to non-current assets (other than financial instruments and deferred income tax assets)	2,043,812	119,749	207,613	409,046	770,469	45,499	3,596,188

4. Other income

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Government grants	49,969	39,093
Value-added tax refunds	1,048	9,547
Gains on substantial modification upon loan restructuring	1,006,874	—
Gains on non-substantial modification of borrowings	297,449	—
Miscellaneous income	3,361	5,440
	<u>1,358,701</u>	<u>54,080</u>

5. Finance income and expenses

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
<i>Finance income</i>		
— Interest income	<u>16,806</u>	<u>10,932</u>
<i>Finance costs</i>		
— Borrowing costs	(1,381,661)	(1,631,394)
Less: amounts capitalised on qualifying assets	<u>81,505</u>	<u>139,644</u>
	<u>(1,300,156)</u>	<u>(1,491,750)</u>
— Net exchange loss on financing activities	(25,976)	(33,712)
— Unwinding of provision	<u>(22,852)</u>	<u>(11,724)</u>
	<u>(1,348,984)</u>	<u>(1,537,186)</u>
Finance costs — net	<u>(1,332,178)</u>	<u>(1,526,254)</u>

6. Income tax expenses

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current income tax		
— Corporate income tax	113,688	146,046
Deferred income tax		
— Corporate income tax	62,302	(121,725)
	<u>175,990</u>	<u>24,321</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 60% 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% (2021: 25%).

(b) Thailand corporate income tax

The subsidiary operating solid waste treatment project in Thailand is subject to corporate income tax at the statutory rate of 20% for the year ended 31 December 2022 (2021: 20%).

(c) Hong Kong profits tax

The applicable Hong Kong profits tax rate is 16.5% for the year ended 31 December 2022 (2021: 16.5%).

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 2022 (2021: 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 22% for the year ended 31 December 2022 (2021: 22%).

7. Loss per share

(a) Basic

The basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year ended 31 December 2022.

	Year ended 31 December	
	2022	2021
<u>Loss</u>		
Loss attributable to the ordinary shareholders of the Company (RMB'000)	<u>(1,060,342)</u>	<u>(1,001,876)</u>
	<u>Number of shares</u>	
<u>Shares</u>		
Weighted average number of ordinary shares in issue (thousands)	<u>1,193,213</u>	<u>1,193,213</u>

(b) Diluted

Diluted loss per share is the same as basic loss per share as there were no potential diluted ordinary shares outstanding as at 31 December 2022 and 2021.

8. Dividends

At the board of directors meeting held on 31 March 2023, the Directors did not recommend the payment of any final dividend for the year ended 31 December 2022 out of retained earnings of the Company.

At the board of directors meeting held on 31 March 2022, the Directors did not recommend the payment of any final dividend for the year ended 31 December 2021 out of retained earnings of the Company.

9. 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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Receivables under service concession arrangements	7,588,356	6,509,663
Less: provision for impairment	(46,274)	(16,543)
	7,542,082	6,493,120
Portion classified as current assets	(211,255)	(86,731)
Non-current portion	7,330,827	6,406,389

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

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	211,972	86,731
One to two years	309,919	93,784
Two to five years	1,005,718	348,382
Over five years	6,060,747	5,980,766
	7,588,356	6,509,663

10. Trade and other receivables and prepayments

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables (note a)		
— Related parties	2,184,168	2,052,478
— Local governments	1,471,665	1,130,648
— Third parties	2,557,934	2,684,947
Less: provision for impairment	(911,312)	(395,341)
	5,302,455	5,472,732
Other receivables		
— Related parties	38,376	40,567
— Third parties	1,684,329	1,942,621
Less: provision for impairment	(171,388)	(113,747)
	1,551,317	1,869,441
Total trade and other receivables	6,853,772	7,342,173
Less: non-current portion of trade and other receivables	(258,059)	(914,561)
Current portion of trade and other receivables	6,595,713	6,427,612
Prepayments		
— Related parties	163,802	267,842
— Third parties	1,338,063	1,380,298
Less: provision for impairment	(41,961)	(39,267)
	1,459,904	1,608,873
Less: non-current portion of prepayments	(1,207,570)	(1,463,032)
Current portion of prepayments	252,334	145,841

10. Trade and other receivables and prepayments (continued)

(a) Trade receivables

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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	1,020,693	1,020,168
One to two years	463,061	1,981,864
Two to three years	1,979,246	870,572
Over three years	2,750,767	1,995,469
	<u>6,213,767</u>	<u>5,868,073</u>

The Group have different credit policies for various products and services, depending on the requirements of different business segments and the contractual agreements with different customers.

11. Borrowings

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current		
Long-term bank borrowings	15,419,734	2,778,605
Corporate bonds and other borrowings	11,328,091	5,191,834
	<u>26,747,825</u>	<u>7,970,439</u>
Current		
Short-term bank borrowings	455,778	4,439,748
Current portion of long-term bank borrowings	870,331	10,508,225
Current portion of corporate bonds and other borrowings	2,058,701	5,737,134
	<u>3,384,810</u>	<u>20,685,107</u>
	<u>30,132,635</u>	<u>28,655,546</u>

12. Trade and other payables

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Trade payables:		
— Related parties	1,144,174	1,498,780
— Third parties	6,018,684	5,210,270
	7,162,858	6,709,050
Notes payables	—	318,010
Other payables:		
— Related parties	210,222	246,061
— Third parties	1,287,399	1,200,576
Staff welfare benefit payable	125,699	59,957
Other taxes payable	113,551	200,531
Dividend payables	70,357	73,655
	8,970,086	8,807,840
Less: non-current portion	(49,900)	(2,833,401)
Current portion	8,920,186	5,974,439

- (a) Trade payables are settled in accordance with agreed terms with suppliers.
- (b) At 31 December 2022, the ageing analysis of the trade payables based on invoice dates or contractual terms, is as follows:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Within one year	914,272	1,635,012
One to two years	1,553,742	2,701,724
Two to three years	2,623,526	1,250,758
Over three years	2,071,318	1,121,556
	7,162,858	6,709,050

13. Events after the reporting period

On 27 February 2023, the Company (as vendor) and Beijing Enterprises Water Group (China) Investment Limited* (北控水務(中國)投資有限公司) (“**Beijing Enterprise Water**”) (as purchaser) entered into (a) the Honghe Equity Transaction Agreement, pursuant to which, the Company has agreed to sell, and the Beijing Enterprise Water has agreed to acquire, 100% equity interest in Honghe Water Industry Investment Co., Ltd.* (紅河州水務產業投資有限公司) at the consideration of RMB155,400,000; and (b) the Shuifu Equity Transaction Agreement, pursuant to which, the Company has agreed to sell, and Beijing Enterprise Water has agreed to acquire, 100% equity interest in Shuifu Water Industry Investment Co., Ltd.* (水富縣水務產業投資有限公司) at the consideration of RMB28,300,000. The considerations have been settled by the deposit received in 2021.

For details, please refer to the Company’s announcement dated 27 February 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Since the 18th CPC National Congress put forward the overall layout of “five-in-one” in the new era, the construction of ecological civilization has received unprecedented attention. In October 2022, the 20th CPC National Congress emphasized once again the ecological and environmental protection work. The report of the 20th CPC National Congress includes 15 chapters, and the ecological and environmental protection forms an independent chapter. Chapter X of the report, with the title of “Promoting Green Development and Promoting Harmonious Coexistence between Human and Nature”, emphasizes the important role of environmental protection work in the future development. The goal of ecological and environmental development in the report of the 20th CPC National Congress is the continuation and upgrading of the previously issued policies. In terms of pollution control, from “focusing on solving prominent environmental problems” to “promoting environmental pollution prevention and control in depth”, the overall goal is defined as “blue sky, blue water and clean land defense war”, and the construction of environmental infrastructure is strengthened. In terms of ecological protection, the goal is emphasized to “improve the diversity, stability and sustainability of the ecosystem”. At the same time, the report of the 20th CPC National Congress highlights the promotion of “carbon peaking and carbon neutrality” and “accelerating the green transformation of development mode”. Collaborating “pollution reduction” and “carbon reduction”, accelerating green transformation, promoting energy conservation and emission reduction, and strengthening ecological and environmental protection are the key points of future environmental protection work.

On 24 January 2022, the State Council issued the Notice on Printing and Distributing the Comprehensive Work Plan for Energy Conservation and Emission Reduction during the “Fourteenth Five-Year Plan” (《關於印發「十四五」節能減排綜合工作方案的通告》), which pointed out that by vigorously promoting energy conservation and emission reduction, the state should accelerate the establishment and improvement of the green and low-carbon cycle development economic system, achieve the synergy in energy conservation, carbon reduction and pollution reduction, and continuously improve the ecological and environmental quality. On 10 June 2022, seven ministries and commissions jointly issued the Notice on Printing and Distributing the “Implementation Plan for Synergistic Efficiency of Pollution Reduction and Carbon Reduction” (《關於印發〈減污降碳協同增效實施方案〉的通告》), pointing out that in the face of the new situation, new tasks and new requirements of the construction of ecological civilization, we must base ourselves on reality, follow the inherent laws of pollution and carbon reduction, make full use of the existing ecological and environmental system to promote low-carbon development, innovate policies and measures, optimize the governance routes, and promote the synergy in pollution and carbon reduction. In addition to the above two documents, in 2022, various national authorities issued comprehensive guidance documents in the field of ecological environment for many times, constantly emphasizing the synergistic development of “pollution and carbon reduction”, and put forward specific development requirements and development directions for water, solid waste, gas, soil and other fields.

From the perspective of water policy, based on the concept of the “synergy of pollution and carbon reduction” and “energy conservation and emission reduction” under the “dual carbon” goal, the pollution control policy in the water industry combines wastewater treatment with recycling use of water and resource reuse of wastewater; at the same time, the policy document emphasizes the realization of the “synergy of pollution reduction and carbon reduction” through the upgrading of water treatment equipment, treatment technology and process.

From the perspective of solid waste policy, the policy document focuses on the construction of wasteless cities, and the fields of recycling use and resource reuse. The policy in the field of “wasteless city” focuses on the front-end garbage collection, storage and transportation and other sanitation services as well as the back-end garbage treatment. Corresponding to the green transformation advocated by the “dual carbon” goal, while achieving the reduction of waste treatment, the industry should pay attention to the realization of energy conservation, emission reduction, and recycling and regeneration through recycling use, comprehensive use and resource reuse; at the same time, garbage incineration power generation has been promoted as a renewable energy utilization mode in the green transformation of energy while realizing reduction and resource reuse.

DEVELOPMENT STRATEGIES AND PROSPECT

In 2022, subject to the complex economic situation at home and abroad, the environmental protection enterprises generally encountered difficulties, and the supply of the environmental protection market has been reduced due to the continuous recurrence of the COVID-19 pandemic. The downward pressure on the economy has continued to mount, and various risks and challenges has significantly increased. Faced with huge challenges and severe tests, the Company has continued to promote multi-channel relief through strengthening the management of operation projects, continuously promoting technology research and development, actively trying out new business projects and asset disposal, and steadily pushed forward the work of deepening reform, operation management and technology innovation.

In terms of operating projects, the Company has further strengthened the construction of the operation management system, and effectively improved the quality of the Company's stock assets and its ability to create efficiency through the ways and means of adjusting water prices, collecting and clearing debts, upgrading and renovating, energy saving and consumption reduction as well as strict incentives and penalties. At the same time, the Company has strengthened the accounting and analysis of the operating costs of all operating projects and actively sought appropriate and reasonable room for cost control, so that the increase of management expenses and operating expenses could be reasonably controlled.

Relying on the two-wheel model of "technology as the main driver and capital as the supplementary driver (技術為主驅動，資金為輔驅動)", the Company has kept an eye on the new trends and demands of the industry development, and vigorously promoted technology research and development in conjunction with the Company's development needs. In order to solve the problem that organic solid waste in small cities, counties and villages is too various, fewer and scattered to use traditional methods, such as incineration, landfill and composting, for independent treatment, the Company has independently developed the low-temperature adiabatic pyrolysis and carbonization technology of organic solid waste, actively carried out the protection of intellectual property rights, and promoted the establishment of relevant standards and regulations. As for the intelligent environmental system platform, the Company has realized a series of functions such as data collection and display of project operation through continuous debugging and updating of technical support, and the system functions have the conditions for national promotion.

In terms of new business, in order to actively respond to the national carbon emission reduction policy, the Company has combined with its own operating conditions to actively try to apply photovoltaic power generation in its operating projects. Secondly, in view of the increasingly urgent demand for recycling of used power batteries in the rapidly developing new energy vehicle industry, we have based on the deep understanding of the new energy industry and solid waste treatment industry to actively explore the provision of a full set of industrial solutions and core equipment for the new energy battery recycling industry, so as to enhance the value of material recycling.

In order to further replenish working capital and improve liquidity of the Company, the Company has actively carried out the asset disposal in 2022. Since early 2022, the equity disposal of four asset packages through public tender has been completed by the Company.

In 2023, the Company will continue to make every effort to accelerate the progress of project construction, and focus on the project progress of the annual planned completion projects to ensure that the projects are completed according to the completion plan as scheduled for preliminary inspection, so as to create conditions for early commissioning and production. At the same time, the Company will focus on the improvement of the quality and efficiency of the operation of the Company, continue to lean the management level and promote energy saving and consumption reduction. Combined with the Company's production and operation management needs, we will further improve the operation management system, refine the operation management process and standardize the operation management operation. Through effectively integrating operation resources, we will give full play to the advantages of localized management, and focus on identifying operational priorities and solving operational difficulties to improve the overall level of operational management by establishing a team of operational management experts. Combined with the intelligent environment project, we will give priority to the construction of production management information system to promote the informatization and standardization of daily operation of projects, and realize information sharing and timely data analysis to improve operational management efficiency.

In the future, the Company will continue to focus on its strategic positioning as an “urban environmental protection integrated services provider (城市環境綜合服務商)” and combine the national policies of “Wasteless City (無廢城市)” and “carbon emission peak, carbon neutrality (碳達峰•碳中和)” to invest in quality projects, strengthen the domestic market and continuously expand international markets. Firstly, we will prioritize the construction of areas closely related to the strategic development plan and core business of the enterprise, so as to quickly realize the business value of intelligent environmental system construction, realize the business value of information technology resource pooling, establish a sharing system, carry out business copy of similar projects in various regions, and jointly achieve business objectives to achieve cost reduction and efficiency. Secondly, we will continue to improve the standardization of adiabatic pyrolysis and carbonization technology of organic solid waste, and realize the application of related equipment as soon as possible. Thirdly, we will accelerate our business in new industries, such as photovoltaic power generation and recycling of used power batteries, to further broaden our business scope and further enhance our core competitiveness, so as to contribute to the development of “Wasteless City” and “carbon emission peak, carbon neutrality”.

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 (“**BOT**”), Build-Own-Operate (“**BOO**”), Transfer-Operate-Transfer (“**TOT**”), Transfer-Own-Operate (“**TOO**”), Build and Transfer (“**BT**”), Engineering-Procurement-Construction (“**EPC**”), Rehabilitate-Operate-Transfer (“**ROT**”), Operation and Maintenance (“**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 the PRC and the Southeast Asian countries, the Group’s principal businesses comprise five major segments, namely, wastewater treatment, water supply, solid waste treatment, construction and sales of equipment and others.

As at 31 December 2022, 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 6,098,175 tonnes. As at 31 December 2022, 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 4,081,900 tonnes.

Wastewater Treatment Projects

As at 31 December 2022, the Group had a total of 128 concession wastewater treatment projects, including 7 BOO projects, 65 BOT projects, 2 TOO projects, 25 TOT projects, 1 ROT project and 28 municipal environment comprehensive treatment projects, with total daily treatment capacity of approximately 3,263,375 tonnes, representing a reduction of 4 BOT projects and 2 TOT projects year-on-year, and a decrease in the daily wastewater treatment capacity of approximately 290,000 tonnes due to asset disposal as compared with the year ended 31 December 2021.

As at 31 December 2022, 105 concession projects with total daily treatment capacity of approximately 2,679,250 tonnes had commenced commercial operation (including 6 municipal environment comprehensive treatment projects with a total daily wastewater treatment capacity of approximately 215,200 tonnes), representing an addition of 1 BOT project, 2 BOO projects and 2 municipal environment comprehensive treatment projects which commenced operation and a reduction of 4 BOT projects and 2 TOT projects year-on-year due to asset disposal as compared with the year ended 31 December 2021. During the Reporting Period, the Group’s average wastewater treatment utilisation rate was approximately 79.7%, and the average unit charge of wastewater treatment was approximately RMB1.60 per tonne.

As at 31 December 2022, 23 concession projects with total daily treatment capacity of approximately 584,125 tonnes had not commenced commercial operation (including 22 municipal environment comprehensive treatment projects with total daily treatment capacity of approximately 580,100 tonnes), representing 1 BOT project, 2 BOO projects and 2 municipal environment comprehensive treatment projects under construction converted to operation as compared with the year ended 31 December 2021.

Water Supply Projects

As at 31 December 2022, the Group had a total of 66 concession water supply projects with total daily treatment capacity of approximately 2,429,100 tonnes, including 15 BOO projects, 34 BOT projects, 11 TOT projects and 6 municipal environment comprehensive treatment projects, representing a reduction of 1 BOT project year-on-year, and a decrease in total daily treatment capacity of approximately 20,000 tonnes due to asset disposal as compared with 31 December 2021.

As at 31 December 2022, 50 concession projects with total daily treatment capacity of approximately 1,625,000 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 1 BOO project and 1 TOT project, and a reduction of 1 BOT project year-on-year due to asset disposal as compared with 31 December 2021. During the Reporting Period, affected by the COVID-19 pandemic, the Group's water supply for non-residents and special industries declined, the Group's average water supply utilisation rate was approximately 60.3%, and the average unit charge of water supply was approximately RMB2.33 per tonne.

As at 31 December 2022, 16 concession projects with total daily treatment capacity of approximately 804,100 tonnes had not commenced commercial operation (including 5 municipal environment comprehensive treatment projects with total daily treatment capacity of approximately 389,700 tonnes), representing a reduction of 1 BOO project and 1 TOT project under construction as compared with the year ended 31 December 2021.

Solid Waste Treatment Projects

As at 31 December 2022, the Group had 24 solid waste treatment projects with total annual treatment capacity of approximately 4,081,900 tonnes, 13 of which with an annual treatment capacity of approximately 2,186,600 tonnes had commenced commercial operation ((including 1 municipal environment comprehensive treatment project with an annual treatment capacity of approximately 219,000 tonnes); 11 of them with an annual treatment capacity of approximately 1,895,300 tonnes were under construction (including 2 municipal environment comprehensive treatment projects with the total annual treatment capacity of approximately 900,800 tonnes). The treatment capacity remained generally stable as compared with 31 December 2021. During the Reporting Period, the Group's average solid waste treatment utilisation rate was approximately 74.02%.

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 2022, the Group had a total of 11 BT projects, which were either under construction and/or completed, among which revenue of 10 BT projects was recognised during the Reporting Period.

During the Reporting Period, the Group had a total of 13 EPC projects.

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 products. 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 2022, the Group was providing relevant operational services for 29 O&M projects, which remained stable as compared with 31 December 2021. These projects included 28 wastewater treatment projects with total daily treatment capacity of approximately 400,700 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 RMB3,789.3 million, representing a decrease of approximately 28.2% compared with the year ended 31 December 2021. The Group realized a net loss of approximately RMB1,158.3 million, representing a decrease of approximately 9.8% compared with the year ended 31 December 2021. Loss attributable to the ordinary shareholders of the Company was approximately RMB1,060.3 million, representing an increase of approximately 5.8% as compared with 31 December 2021. Loss per share for the year ended 31 December 2022 was approximately RMB0.889.

Revenue

Revenue of the Group decreased from approximately RMB5,280.7 million for the year ended 31 December 2021 to approximately RMB3,789.3 million for the Reporting Period, representing a decrease of approximately 28.2%.

In respect of the business segments of the Group, revenue from wastewater treatment decreased from approximately RMB3,387.3 million for the year ended 31 December 2021 to approximately RMB2,289.3 million for the Reporting Period. Revenue from water supply decreased by approximately 28.4% from approximately RMB921.8 million for the year ended 31 December 2021 to approximately RMB660.2 million for the Reporting Period. Revenue from solid waste treatment decreased by approximately 5.0% from RMB754.8 million for the year ended 31 December 2021 to approximately RMB716.9 million for the Reporting Period. Revenue from construction and sales of equipment decreased by approximately 66.3% from approximately RMB137.1 million for the year ended 31 December 2021 to approximately RMB46.2 million for the Reporting Period. Revenue from other business decreased from approximately RMB79.8 million for the year ended 31 December 2021 to approximately RMB76.7 million for the Reporting Period.

The decrease in revenue from the wastewater treatment segment was mainly attributable to the decrease in construction revenue of the existing wastewater treatment projects under construction during the Reporting Period.

The decrease in revenue from the water supply segment was mainly attributable to the decrease in construction revenue of the existing water supply projects under construction and operating revenue from water supply service projects during the Reporting Period.

The decrease in revenue from the solid waste treatment segment was mainly attributable to the decrease in revenue from hazardous waste treatment in solid waste projects during the Reporting Period, resulting in a decrease in operating revenue from solid waste.

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

Cost of Sales

Cost of sales of the Group for the Reporting Period was approximately RMB3,035.5 million, representing a decrease of approximately 23.4% as compared with approximately RMB3,964.2 million for the year ended 31 December 2021. The decrease was primarily due to the decrease in cost for construction which was in line with the decrease in construction revenue of the existing wastewater treatment projects and water supply projects under construction during the construction period.

Gross Profit Margin

During the Reporting Period, gross profit margin of the Group was approximately 19.89%, representing a decrease of approximately 5.04% as compared to approximately 24.93% for the year ended 31 December 2021.

Other Income

During the Reporting Period, the Group recorded other income of approximately RMB1,358.7 million as compared with approximately RMB54.1 million for the year ended 31 December 2021, representing an increase of approximately 2,411.5%. The increase in other income was mainly due to the increase in income from debt restructuring.

Other Gains — net

During the Reporting Period, the Group recorded other net losses of approximately RMB95.3 million, representing a decrease of approximately RMB259.6 million as compared with a net gains of approximately RMB164.3 million for the year ended 31 December 2021. The change in other gains was mainly due to a profit of RMB42.5 million from the disposal of an associate and a profit of RMB170.2 million from fair value changes in last year, while a net loss of RMB28.4 million was generated from the sale of investment in subsidiary company and a net loss of RMB11.8 million was generated from the withdrawal of a solid waste management license project in the current year.

Selling Expenses

During the Reporting Period, selling expenses of the Group was approximately RMB42.0 million, representing a decrease of approximately RMB6.4 million or 13.2% as compared with approximately RMB48.4 million for the year ended 31 December 2021.

Administrative Expenses

Administrative expenses of the Group increased by RMB378.6 million from approximately RMB650.7 million for the year ended 31 December 2021 to approximately RMB1,029.3 million for the Reporting Period, representing an increase of approximately 58.2%. The increase in administrative expenses was primarily due to the provision for impairment of long-term assets in the current period.

Finance Costs — net

Net finance costs decreased by RMB194.1 million from approximately RMB1,526.3 million for the year ended 31 December 2021 to approximately RMB1,332.2 million for the Reporting Period, representing a decrease of approximately 12.7%. The decrease in net finance costs was primarily due to the decrease in borrowing rates during the Reporting Period, resulting in a decrease in borrowing costs.

The average interest rate on borrowings of the Group for the Reporting Period was approximately 4.42% per annum, representing a decrease compared with approximately 5.73% per annum for the year ended 31 December 2021.

Loss Before Income Tax

As a result of the above factors, the Group recorded loss before income tax of approximately RMB982.4 million for the Reporting Period, representing a decrease of approximately 4.7% as compared with the loss before income tax of approximately RMB1,030.9 million recorded for the year ended 31 December 2021.

Income Tax Expenses

Income tax expenses increased by RMB151.7 million from approximately RMB24.3 million for the year ended 31 December 2021 to approximately RMB176.0 million for the Reporting Period, representing an increase of approximately 624.3%. The increase was mainly due to the increase in the amount of tax losses not recognised by the Group as deferred income tax assets.

Loss for the Reporting Period

As a result of the foregoing, loss for the Reporting Period increased by approximately RMB103.0 million from the loss of approximately RMB1,055.3 million for the year ended 31 December 2021 to the loss of approximately RMB1,158.3 million for the Reporting Period, representing an increase of approximately 9.8%.

Receivables under Service Concession Arrangements

The Group's receivables under service concession arrangements increased by approximately RMB1,049.0 million from approximately RMB6,493.1 million as at 31 December 2021 to approximately RMB7,542.1 million as at 31 December 2022, representing an increase of approximately 16.2%. Such increase was due to a number of concession projects commenced commercial operation during the Reporting Period.

Trade and Other Receivables and Prepayments

The Group's trade and other receivables and prepayments decreased by approximately RMB637.3 million from approximately RMB8,951.0 million as at 31 December 2021 to approximately RMB8,313.7 million as at 31 December 2022, representing a decrease of approximately 7.1%. Such decrease was mainly due to the increase in the provision for impairment of trade and other receivables in the current period.

Cash and Cash Equivalents

The Group's cash and cash equivalents increased by approximately RMB172.2 million from approximately RMB428.4 million as at 31 December 2021 to approximately RMB600.6 million as at 31 December 2022, representing an increase of approximately 40.2%. Such increase was mainly due to a decrease in restricted cash and an increase in bank deposits during the Reporting Period as compared with last year.

Trade and Other Payables

The Group's trade and other payables increased by approximately RMB162.3 million from approximately RMB8,807.8 million as at 31 December 2021 to approximately RMB8,970.1 million as at 31 December 2022, representing an increase of approximately 1.8%.

Borrowings

As at 31 December 2022, the Group had borrowings of approximately RMB30,132.6 million (31 December 2021: approximately RMB28,655.5 million). As at 31 December 2022, the Group had unsecured borrowings of approximately RMB16,968.5 million (31 December 2021: approximately RMB14,708.6 million), and secured borrowings of approximately RMB13,164.1 million (31 December 2021: approximately RMB13,946.9 million).

Pledge of Assets

As at 31 December 2022, borrowing of approximately RMB13,164.1 million (31 December 2021: approximately RMB13,946.9 million) were secured by the Group's receivables under service concession arrangements, contract assets, right-of-use assets, property, plant and equipment, intangible assets and the Company's investments in subsidiaries.

Gearing Ratio

The Group's gearing ratio (calculated as net debt divided by total capital) increased from approximately 78.79% as at 31 December 2021 to approximately 86.81% as at 31 December 2022. The increase in gearing ratio was mainly due to the increased scale of debt financing during the Reporting Period.

The Board will closely monitor and improve the gearing ratio of the Group.

Employees and Remuneration Policy

As at 31 December 2022, the Group employed 6,516 employees (31 December 2021: 6,998). During the Reporting Period, staff cost was approximately RMB605.0 million (for the year ended 31 December 2021: RMB666.5 million). The Group will strive to ensure that the remuneration level of employees is in line with industry practices and prevailing market conditions, and remunerations of employees will be determined based on their performance. The remuneration package provided to employees also includes basic and floating salaries, discretionary bonus and staff benefits. The Group also provides external and internal training programs for its employees.

The Group did not experience any significant labour disputes causing any material impact on its normal business operations.

Foreign Exchange Risk

The Group principally operates in the PRC with most of the transactions being settled in RMB, which is the functional currency of most of the group entities. The Group also has certain subsidiaries in foreign operations. Foreign exchange risk arises from the recognised assets and liabilities and net investments in foreign operations. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through financing activities denominated in the relevant foreign currencies.

The group entities are exposed to foreign exchange risk of foreign currencies other than their functional currencies, primarily with respect to the US dollars (“US\$”), Euro (“EUR”) and Hong Kong dollars (“HKD”) (together “**Non-functional Currencies**”). The Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimizing its net foreign currency position. Management considers the fluctuations in exchange rates between the functional currencies of respective group entities and Non-functional Currencies in which the group entities conduct business will not have significant effect on the Group's financial position and results of operations.

Contingent Liabilities

Affected by the cases of financial leasing contract dispute, some assets of the Group were taken property preservation measures by the relevant courts from December 2021 to May 2022. Although the Group has settled its historical overdue borrowings, as at 31 December 2022, a lender of overdue borrowings has taken property preservation measures through judicial procedures, and the freezing of the Group's 7.27% equity in Qianjiang Biochemical with a book value of RMB348,856,000 has not yet been lifted. At present, the Company is actively communicating with relevant financial institutions involved in the lawsuit, seeking solutions from the professional lawyer team, hoping to reach a settlement through mediation and ensuring the smooth implementation of relevant settlement agreements. If the relevant settlement matters can be reached, the Company's assets subject to preservation measures and enforcement may be unfrozen, and such release will not have any adverse impact on the ownership of relevant assets and the circulation of funds in the account. Therefore, the Company believes that the property preservation and enforcement caused by relevant financial lease contract disputes will not constitute major contingent liabilities of the Group.

From January to March 2023, the aforementioned lender has released the freeze on the 4.75% equity in Qianjiang Biochemical with a book value of RMB228,018,000 as at 31 December 2022.

Final Dividend

The Board does not recommend the distribution of a final dividend for the year ended 31 December 2022.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

- On 3 November 2022, Yunnan Water (Hong Kong) Company Limited (“**Yunnan Water (Hong Kong)**”, being a wholly-owned subsidiary of the Company) (as vendor) and Global Environment Investment (HK) Limited (“**Global Environment Investment**”) (as purchaser) entered into an equity transaction agreement, pursuant to which, Yunnan Water (Hong Kong) agreed to sell, and Global Environment Investment agreed to acquire, 100% interest in Yunshui Technology Co., Ltd.* (雲水科技有限公司) at the consideration of RMB296,259,700.
- On 20 December 2022, Hyflux Utility WWT (MG) Limited (“**Hyflux Utility**”, being a wholly-owned subsidiary of the Company) (as vendor) and CGN Environmental Protection Industry Co. Ltd. (中廣核環保產業有限公司) (“**CGN Environmental Protection**”) (as purchaser) entered into an equity transaction agreement, pursuant to which, Hyflux Utility has agreed to sell, and CGN Environmental Protection has agreed to acquire, 100% equity interest in Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.* (凱發污水處理(明光)有限公司) at the consideration of RMB96,523,000.
- On 28 December 2022, the Company (as vendor) and CGN Environmental Protection Industry Co. Ltd. (中廣核環保產業有限公司) (“**CGN Environmental Protection**”) (as purchaser) entered into an equity transaction agreement, pursuant to which, the Company has agreed to sell, and CGN Environmental Protection has agreed to acquire, 100% equity interest in Lu’an Yeji Yunshui Water Investment Co., Ltd.* (六安市葉集區雲水水務投資有限公司) at the consideration of RMB87,295,900.

For details of the above-mentioned significant investment and acquisition, please refer to the announcements published by the Company on 3 November 2022, 20 December 2022 and 28 December 2022.

Subsequent Events:

- On 27 February 2023, the Company (as vendor) and Beijing Enterprises Water Group (China) Investment Limited* (北控水務(中國)投資有限公司) (“**Beijing Enterprise Water**”) (as purchaser) entered into (a) the Honghe Equity Transaction Agreement, pursuant to which, the Company has agreed to sell, and the Beijing Enterprise Water has agreed to acquire, 100% equity interest in Honghe Water Industry Investment Co., Ltd.* (紅河州水務產業投資有限公司) at the consideration of RMB155,400,000; and (b) the Shuifu Equity Transaction Agreement, pursuant to which, the Company has agreed to sell, and Beijing Enterprise Water has agreed to acquire, 100% equity interest in Shuifu Water Industry Investment Co., Ltd.* (水富縣水務產業投資有限公司) at the consideration of RMB28,300,000.

For details of the above-mentioned subsequent events, please refer to the announcement published by the Company on 27 February 2023.

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 2022 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. Zhong Wei and Mr. Zhou Beihai. 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; monitoring 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, and reviewed matters concerning the distribution of dividends, proposed appointment of auditors. 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. Mei Wei (as chairman), and two independent non-executive Directors, Mr. Zhou Beihai and Mr. Zhong Wei. 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 Directors.

REMUNERATION COMMITTEE

The Remuneration Committee consists of one executive Director, Mr. Yu Long, and two independent non-executive Directors, Mr. Zhong Wei (as chairman) and Mr. Zhou Beihai. The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the policy and structure of remuneration for all Directors and senior management members and on the establishment of a formal and transparent procedure for developing remuneration policy; review and approval of the remuneration proposals from the management; making recommendations to the Board on the remuneration packages of individual executive Directors and senior management members; and to advise Shareholders with respect to the service contracts of Directors that require Shareholders' approval under the Listing Rules. Terms of reference of the Remuneration Committee have been published on the website of the Company.

COMPLIANCE COMMITTEE

The Compliance Committee consists of one non-executive Director, Mr. Mei Wei, one executive Director, Mr. Yu Long, two independent non-executive Directors, Mr. Zhong Wei (as chairman) and Mr. Liu Shuen Kong, 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

The information of the Directors and supervisors of the Company (the “**Supervisor(s)**”) required to be disclosed pursuant to Rules 13.51(2) and 13.51B(1) of the Listing Rules has been changed as follows:

On 30 January 2023, Mr. Mei Wei was appointed as a non-executive Director, Chairman, member and chairman of the Nomination Committee of the third session of the Board.

For details of the above-mentioned particulars of Directors and Supervisors, please refer to the announcement published by the Company on 30 January 2023.

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 announcement published by the Company on 30 January 2023.

Audit Committee

Mr. Liu Shuen Kong (*Chairman*)

Mr. Zhong Wei

Mr. Zhou Beihai

Remuneration Committee

Mr. Zhong Wei (*Chairman*)

Mr. Yu Long

Mr. Zhou Beihai

Nomination Committee

Mr. Mei Wei (*Chairman*)

Mr. Zhou Beihai

Mr. Zhong Wei

Compliance Committee

Mr. Zhong Wei (*Chairman*)

Mr. Yu Long

Mr. Liu Shuen Kong

Mr. Zhou Beihai

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 2022.

EXTRACT OF INDEPENDENT AUDITOR’S REPORT

The following is an extract of the independent auditor’s report on the Group’s audited consolidated financial statements for the year ended 31 December 2022.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

As described in note 2.1 to the consolidated financial statements, the Group reported a net loss of RMB1,158,349,000 for the year ended 31 December 2022 and the Group’s current liabilities exceeded its current assets by RMB4,699,176,000 as at 31 December 2022. As at the same date, the Group’s total borrowings amounted to RMB30,132,635,000, of which current borrowings amounted to RMB3,384,810,000, while its cash and cash equivalents amounted to RMB600,642,000 only. As at 31 December 2022, the Group had capital commitments of approximately RMB9,347,286,000, which were mainly related to various concession projects and construction projects of the Group.

These conditions, together with other matters described in note 2.1 to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt about the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.yunnanwater.cn). The 2022 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 2022.

By order of the Board
Yunnan Water Investment Co., Limited*
Mei Wei
Chairman

Kunming, the PRC
31 March 2023

As at the date of this announcement, the executive Directors are Mr. Yu Long (Vice-Chairman) and Mr. Zhou Zhimi, the non-executive Directors are Mei Wei (Chairman), Mr. Dai Richeng, Mr. Chen Yong and Mr. Liu Hui, and the independent non-executive Directors are Mr. Liu Shuen Kong, Mr. Zhou Beihai and Mr. Zhong Wei.

* For identification purposes only