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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)

UPDATE ON THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

Reference is made to the announcement of Yunnan Water Investment Co., Limited* (the “**Company**”) dated 31 March 2022 in relation to the unaudited annual results for the year ended 31 December 2021 (the “**Unaudited 2021 Annual Results Announcement**”). Unless the context requires otherwise, capitalised terms used in this announcement shall have the same meanings as those defined in the Unaudited 2021 Annual Results Announcement.

Auditor’s Agreement on the 2021 Annual Results

As stated in the Unaudited 2021 Annual Results Announcement, the unaudited consolidated results and financial condition for the year ended 31 December 2021 set forth therein had not been agreed with the auditor in accordance with the requirements under Rule 13.49(2) of the Listing Rules. The Board hereby announces that PricewaterhouseCoopers (“**PwC**”), the Company’s auditor, has completed the audit work on the 2021 Annual Results of the Company and its subsidiaries (the “**Group**”) on 29 April 2022. On 29 April 2022, the Company has obtained the agreement from the auditor of the Company in respect of the figures set out in the consolidated statement of financial position, the consolidated statement of profit or loss and other comprehensive income of the Group and the related notes thereto.

The Audited 2021 Annual Results of the Group remain unchanged in all material respects with the Unaudited 2021 Annual Results, except for the following updates:

1. Note 2.1 Basis of preparation set out on page 6 to page 9 of the Unaudited 2021 Annual Results Announcement should be amended as below:

The Group reported a net loss of RMB1,055,254,000 for the year ended 31 December 2021 and the Group’s current liabilities exceeded its current assets by RMB19,359,615,000 as at 31 December 2021. As at the same date, the Group’s total borrowings amounted to RMB28,655,546,000, of which current borrowings amounted to RMB20,685,107,000, while its cash and cash equivalents amounted to RMB428,427,000 only. The Group had capital commitments of approximately RMB11,963,708,000, which were mainly related to various concession projects and construction projects of the Group.

During the year ended 31 December 2021, the Group failed to repay RMB1,157,710,000 of certain borrowings according to their scheduled repayment dates. Although the Group managed to settle some of these borrowings during the year after the due dates, RMB1,118,793,000 remained unsettled as at 31 December 2021. The total amounts of these Overdue Borrowings, including interests payable and those portions of such loans that had original contractual repayment dates beyond 31 December 2021, amounted to RMB3,920,203,000 (the “**Overdue Borrowings**”). Furthermore, the Group was not able to comply with certain financial covenants of its other borrowings (the “**Covenant Borrowings**”) with a total amount of RMB1,695,958,000 as at 31 December 2021. Consequently, the aforementioned borrowings totaling RMB5,616,161,000 as at 31 December 2021 would be immediately repayable if requested by the lenders. Out of such amount, borrowings of RMB2,983,632,000 that have original contractual repayment dates fall beyond 31 December 2022 were classified as current liabilities as at 31 December 2021.

These matters triggered cross-defaults and resulted in certain other borrowings of the Group (other than the Overdue Borrowings and the Covenant Borrowings) with a total amount of RMB10,781,143,000 as at 31 December 2021 becoming immediately repayable if requested by the lenders, of which RMB6,628,398,000 represented non-current borrowings with original contractual repayment dates fall beyond 31 December 2022 that were classified as current liabilities.

Subsequent to the balance sheet date, the Group further failed to repay scheduled instalments and interests of RMB362,615,000 relating to borrowings with a total amount of RMB4,619,134,000, of which total amounts of RMB3,164,749,000 were related to borrowings that were either overdue or otherwise in default as at 31 December 2021.

From December 2021 to January 2022, lenders of certain Overdue Borrowings amounting to RMB764,360,000 had applied to the courts in the People’s Republic of China for property preservation measures, and the courts ordered to freeze the Group’s certain cash in banks, and equity interests in an associate and a subsidiary. In January 2022, the Group reached a settlement with one of the above lenders for Overdue Borrowings of RMB381,866,000 as at 31 December 2021, but failed to repay the agreed rescheduled instalments in February and March 2022. On 23 March 2022, due to further legal actions taken by the relevant lender, the Company was listed as a person subject to enforcement by Urumqi Intermediate People’s Court, for the settlement of the outstanding amount of RMB371,503,000.

Up to the date of approval of these consolidated financial statements, the Group’s defaulted and cross-defaulted borrowings amounted to approximately RMB17,851,689,000 (the “**Defaulted Borrowings**”).

All of 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.

In view of such circumstances, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain plans and measures have been and will be taken to mitigate the liquidity pressure and to improve its financial position; and to remediate certain delayed repayments to financial institutions which include, but are not limited to, the following:

- (i) The Group had corporate bonds of RMB852,721,000 with early redemption option exercisable by bondholders in March 2022, out of which RMB577,028,000 was exercised by the bondholders and redeemed by the Group, while the bondholders for the remaining RMB275,693,000 did not exercise the option and such amount will be due for repayment by March 2024.
- (ii) In March 2022, the Group obtained a borrowing of RMB990,000,000 from its immediate holding company, Yunnan Green Environmental Protection Industry Group Co., Ltd. (“**YEPI**”). The proceed was partly used to redeem the corporate bonds of RMB577,028,000 as mentioned above, partly used to repay the Group’s borrowings of RMB154,436,000 which were due for repayment in March 2022, which the remaining portion was used to repay the interest and other financing charges due to Yunnan Health & Cultural Tourism Holding Group Co., Ltd. (“**YHTH**”), an intermediate holding company. The Group also obtained borrowings of RMB212,000,000 from a subsidiary of YHTH to repay another corporate bonds which were due in March 2022.
- (iii) The Group will continue its ongoing effort to convince the respective lenders not to take any actions against the Group for immediate repayment of the Defaulted Borrowings. Other than the property preservation measures and enforcement incidents mentioned above, the Directors are not aware of any indication that other lenders have any current intention to take actions against the Group to demand immediate payments.
- (iv) The Group is also in active negotiations with the respective lenders for renewal and extension of the relevant borrowings and for grant of waivers for non-compliance of financial covenants, defaults and cross defaults, and the Directors are confident that agreements will be reached and appropriate waivers will be granted in a timely manner. Since 1 January 2022, the Group has successfully extended RMB412,984,000 of the Overdue Borrowings under the same terms of the original agreement despite the continuing defaulted status.
- (v) The Directors are confident that the Group will be able to renew certain uncommitted revolving loan facilities as at 31 December 2021 as well as to obtain new facilities as planned given the long standing relationship the Group has with the respective banks.

- (vi) The Group has plans to divest certain of the Group's concession projects and construction projects. As at 31 December 2021, the Group has received deposit from a potential acquirer amounted to RMB200,000,000 and the completion of the disposal is expected to take place before June 2022 with a further consideration of approximately RMB220,000,000 to be received. 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 expenses of the Group.
- (vii) 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 uncommitted project loan facilities from banks to provide financing of up to RMB5,506,109,000 to satisfy part of the construction cost payable and committed capital expenditure in the next twelve months from 31 December 2021. 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. Despite the default situation as described above, the Directors believe that these uncommitted 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.
- (viii) The borrowings from YHTH was RMB4,366,330,000 as at 31 December 2021, of which RMB4,302,589,000 was classified as non-current. In addition, in order to facilitate the Group to issue perpetual bonds during the year, YHTH has undertaken to the bondholders to acquire the Group's perpetual bonds of RMB1,622,300,000 under certain circumstance and also provided certain properties of YHTH as security. Moreover, YHTH also issued a letter to the Group and agreed to provide financial support to the Group for a period up to 18 months from 31 December 2021 and to take measures to enable the Group to have sufficient working capital to meet its liabilities and obligations as and when they fall due and to continue to carry on its business.
- (ix) The Group is actively communicating with the relevant lenders that have taken property preservation measures and enforcement through legal proceedings, seeking solutions from the professional lawyer team, hoping to reach a settlement through mediation and ensure the smooth implementation of relevant settlement agreements.

The 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 2021. They are of the opinion that, taking into account the above-mentioned plans and measures, 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 2021. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, material uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the following:

- (i) Successful negotiations with or obtaining waivers from the Group's existing lenders in respect of the borrowings that were either overdue or otherwise in default, so that the relevant lenders will not exercise their contractual rights to demand immediate repayment of the relevant Defaulted Borrowings;
- (ii) Successful in renewal of existing revolving bank facilities and obtaining new bank facilities and drawing down from those facilities, as and when needed;
- (iii) Successful and timely in divesting (including receipt of proceeds) the Group's concession projects and construction projects and introduction of strategic investors to existing projects as planned;
- (iv) Successful in managing the progress of its concession projects and construction projects, deferring the payment schedule of the borrowings in these projects if necessary, and obtaining project and other financings to meet the construction cost obligations, as and when needed;
- (v) Successful in obtaining sufficient financial support from YHTH to meet with its financial obligation as and when needed;
- (vi) Successful and timely in reaching a settlement for the lawsuits with the relevant lenders through mediation and implementation of relevant settlement agreements.

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. In the note to the borrowings set out on page 18 of the Unaudited 2021 Annual Results Announcement should be amended as below:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Non-current		
Long-term bank borrowings	2,778,605	10,946,507
Corporate bonds and other borrowings	5,191,834	6,919,414
	<u>7,970,439</u>	<u>17,865,921</u>
Current		
Short-term bank borrowings	4,439,748	4,157,826
Current portion of long-term bank borrowings	10,508,225	2,141,836
Current portion of corporate bonds and other borrowings	5,737,134	3,376,232
	<u>20,685,107</u>	<u>9,675,894</u>
	<u>28,655,546</u>	<u>27,541,815</u>

During the year ended 31 December 2021, the Group failed to repay RMB1,157,710,000 of certain borrowings according to their scheduled repayment dates. Although the Group managed to settle some of these borrowings during the year after the due dates, RMB1,118,793,000 remained unsettled as at 31 December 2021. The total amounts of these Overdue Borrowings, including interests payable and those portions of such loans that had original contractual repayment dates beyond 31 December 2021, amounted to RMB3,920,203,000 (the “**Overdue Borrowings**”). Furthermore, the Group was not able to comply with certain financial covenants of its other borrowings (the “**Covenant Borrowings**”) with a total amount of RMB1,695,958,000 as at 31 December 2021. Consequently, the aforementioned borrowings totaling RMB5,616,161,000 as at 31 December 2021 would be immediately repayable if requested by the lenders. Out of such amount, borrowings of RMB2,983,632,000 that have original contractual repayment dates fall beyond 31 December 2022 were classified as current liabilities as at 31 December 2021.

These matters triggered cross-defaults and resulted in certain other borrowings of the Group (other than the Overdue Borrowings and the Covenant Borrowings) with a total amount of RMB10,781,143,000 as at 31 December 2021 becoming immediately repayable if requested by the lenders, of which RMB6,628,398,000 represented non-current borrowings with original contractual repayment dates fall beyond 31 December 2022 that were classified as current liabilities.

From December 2021 to January 2022, lenders of certain Overdue Borrowings amounting to RMB764,360,000 had applied to the courts in the People's Republic of China for property preservation measures, and the courts ordered to freeze the Group's certain cash in banks, and equity interests in an associate and a subsidiary. In January 2022, the Group reached a settlement with one of the above lenders for Overdue Borrowings of RMB381,866,000 as at 31 December 2021, but failed to repay the agreed rescheduled instalments in February and March 2022. On 23 March 2022, due to further legal actions taken by the relevant lender, the Company was listed as a person subject to enforcement by Urumqi Intermediate People's Court, for the settlement of the outstanding amount of RMB371,503,000.

3. The following should be added:

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The below sections set out an extract of the report by PricewaterhouseCoopers, the auditor of the Company, regarding the consolidated financial statements of the Group for the year ended 31 December 2021:

Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements of the Group. Because of the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements as described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

Multiple Uncertainties Relating to Going Concern

As described in Note 2.1 to the consolidated financial statements, the Group reported a net loss of RMB1,055,254,000 for the year ended 31 December 2021 and the Group's current liabilities exceeded its current assets by RMB19,359,615,000 as at 31 December 2021. As at the same date, the Group's total borrowings amounted to RMB28,655,546,000, of which current borrowings amounted to RMB20,685,107,000, while its cash and cash equivalents amounted to RMB428,427,000 only. As at 31 December 2021, the Group had capital commitments of approximately RMB11,963,708,000, which were mainly related to various concession projects and construction projects of the Group.

In addition, as at 31 December 2021, the Group was in default in respect of borrowings totaling RMB5,616,161,000 due to either late or overdue payment of loan principals and interests of RMB1,157,710,000, or breach of certain terms and conditions of borrowings during the year ended 31 December 2021. These events of default also resulted in cross-default of certain

borrowings other than those mentioned above of RMB10,781,143,000 as at 31 December 2021. Subsequent to the balance sheet date, the Group further failed to repay certain scheduled instalments and interest of its borrowings which caused default of additional borrowings other than those mentioned above amounted to RMB1,454,385,000. In addition, lenders of certain of the abovementioned overdue borrowings had taken property preservation measures and obtained enforcement order for settlement from the court through legal proceedings.

These conditions, together with other matters described in Note 2.1 to the consolidated financial statements, indicate the existence of multiple uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The directors of the Company have been undertaking a number of measures to mitigate the Group's liquidity pressure and to improve its financial position, and to remediate certain delayed repayments to financial institutions, which are set out in Note 2.1 to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) the successful negotiations with or obtaining waivers from the Group's existing lenders in respect of the borrowings that were either overdue or otherwise in default, so that the relevant lenders will not exercise their contractual rights to demand immediate repayment of the relevant defaulted borrowings; (ii) the successful in renewal of existing revolving bank facilities and obtaining new bank facilities and drawing down from those facilities, as and when needed; (iii) the successful and timely in divesting (including receipt of proceeds) the Group's concession projects and construction projects and introduction of strategic investors to existing projects as planned; (iv) the successful in managing the progress of its concession projects and construction projects, deferring the payment schedule of the borrowings in these projects if necessary, and obtaining project and other financings to meet the construction cost obligations, as and when needed; (v) the successful in obtaining sufficient financial support from Yunnan Health & Cultural Tourism Holding Group Co., Ltd. ("YHTH"), an intermediate holding company to meet with its financial obligation as and when needed; and (vi) the successful and timely in reaching a settlement for the lawsuits with the relevant lenders through mediation and implementation of relevant settlement agreements. As a result of these multiple uncertainties, the potential interaction of these uncertainties, and the possible cumulative effect thereof, we were unable to form an opinion as to whether the going concern basis of preparation is appropriate.

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 values 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. The effects of these adjustments have not been reflected in these consolidated financial statements.

The update on the 2021 Annual Results set out in this announcement has been reviewed by the Audit Committee.

Annual Report

Due to the impact of the outbreak of COVID-19 in Kunming, Yunnan Province in early April 2022, the headquarters of the Company was suspended from centralised office from 11 April 2022 to 15 April 2022, and close-off management was implemented. In addition, the period from 30 April 2022 to 4 May 2022 in the PRC is the holiday of International Labor Day. Taking into account that the Company requires some time to arrange the printing of the Annual Report, pursuant to “the Frequently Asked Questions on the Joint Statement in relation to Results Announcements in light of Travel Restrictions related to the Severe Respiratory Disease associated with a Novel Infectious Agent (Joint Statement) and Convening General Meetings” published by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited, which has been updated on 8 April 2022, the Company will apply for a formal waiver in written from The Stock Exchange of Hong Kong Limited in respect of an extension of the 2021 Annual Report to be published on or before 31 May 2022.

By Order of the Board
Yunnan Water Investment Co., Limited*
Yu Long
Acting Chairman

Kunming, the PRC
29 April 2022

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

* *For identification purposes only*