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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)

**MAJOR TRANSACTION
IN RELATION TO DISPOSAL OF EQUITY INTEREST OF
ASSOCIATED COMPANY
AND
ACQUISITION OF CONSIDERATION SHARES**

* *For identification purposes only*

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“25 Management Shareholders”	Yang Fang, Hu Shake, Zhao Peng, Luo Yuxuan, Chen Xiangwen, Li Junfeng, Zhang Ruliang, Gui Hao, Huang Yi, Mi Shiyun, Luo Hongyan, Zhou Zhimi, Mo Cunyan, Chen Nianjuan, Yang Chuanyun, Liu Nanjiao, Li Guoqiang, Ma Dongjun, Xu Qiang, Dai Shaobo, Shi Jiayong, Que Yunlei, Hong Fang, Song Chunxia and Li Bo
“Acquisition”	the acquisition of the Target Equity by Qianjiang Biochemical pursuant to the Equity Acquisition and Share Issuance Agreement
“Articles of Association”	the articles of association of the Company
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“associated company”	has the same meaning as ascribed to it under the Listing Rules
“Beijing OriginWater”	Beijing OriginWater Technology Co., Ltd.* (北京碧水源科技股份有限公司), a limited liability company established in the PRC, the shares of which are listed on Shenzhen Stock Exchange (stock code: 300070)
“Board”	the board of Directors of the Company
“Caiyun International”	Caiyun International Investment Limited (彩雲國際投資有限公司), a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of YHTH
“Capital Water”	Haining Capital Water Co., Limited* (海寧首創水務有限責任公司), a limited liability company established in the PRC and one of the Underlying Companies
“Closely Allied Group”	the closely allied group of Shareholders comprising (i) Yunnan Province Water with its acting in concert parties (Mr. Liu Xujun, Mr. Huang Yunjian and Mr. Wang Yong); (ii) Beijing OriginWater; and (iii) Caiyun International, which collectively holds 656,586,162 Shares, representing approximately 55.03% of the total number of Shares in issue of the Company as at the Latest Practicable Date
“Company”	Yunnan Water Investment Co., Limited* (雲南水務投資股份有限公司), a joint stock limited liability company incorporated in the PRC, its H Shares are listed on the Main Board of the Stock Exchange (stock code: 6839.HK)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules

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“Consideration”	the consideration in the sum of RMB2,103.2 million in aggregate in relation to the Acquisition to be settled by the issuance of the Consideration Shares pursuant to the Equity Acquisition and Share Issuance Agreement
“Consideration Shares”	the shares to be issued by Qianjiang Biochemical to Haining Water Investment Group and the Company under the Equity Acquisition and Share Issuance Agreement as the consideration of the Acquisition
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“COVID-19”	novel coronavirus (COVID-19), a coronavirus disease which has its outbreak in the PRC, Hong Kong and worldwide since around January 2020
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	the issued ordinary shares at the nominal value of RMB1.00 per share in the share capital of the Company which are subscribed for or credited as paid up in RMB
“Equity Acquisition and Share Issuance Agreement”	the share issuance and asset acquisition agreement (《發行股份購買資產的協議》) dated 6 June 2021 entered into among Qianjiang Biochemical, Haining Water Investment Group and the Company
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas listed foreign-invested ordinary shares of the Company with a nominal value of RMB1.00 per share in the share capital of the Company, which are listed on the Main Board of the Stock Exchange (stock code: 6839.HK) and subscribed for and traded in Hong Kong dollars
“Haining Water Investment Group”	Haining Municipal Water Investment Group Co., Limited* (海寧市水務投資集團有限公司), a limited liability company established in the PRC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Valuer”	Canwin Appraisal Co., Ltd* (坤元資產評估有限公司), an independent third party PRC valuer
“Independent Third Party(ies)”	the third party(ies) who are independent of and are not connected with the Company and its connected persons (as defined in the Listing Rules)
“Issuance”	the issuance of the Consideration Shares by Qianjiang Biochemical pursuant to the Equity Acquisition and Share Issuance Agreement

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“Issue Price”	the issue price of RMB4.43 per Consideration Share as determined based on 90% of the average trading price of the shares of Qianjiang Biochemical for 20 trading days before the Pricing Reference Date
“Latest Practicable Date”	21 June 2021
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Lvdong Haiyun”	Haining Lvdong Haiyun Environmental Protection Energy Co., Ltd* (海寧綠動海雲環保能源有限公司), a limited liability company established in the PRC and one of the Underlying Companies
“Minimum Net Profits”	net profits (after deducting extraordinary gain or loss) attributable to the owners of the parent company of RMB115,000,000, RMB127,000,000 and RMB142,000,000 of Zhejiang Haiyun Environmental Protection for the three financial years ended 31 December 2023, respectively, as stipulated in the Profit Guarantee Agreement
“Parties”	the parties to the Equity Acquisition and Share Issuance Agreement, being Qianjiang Biochemical, Haining Water Investment Group and the Company
“PRC” or “the People’s Republic of China” or “the State”	the People’s Republic of China, for the purpose of this circular only, excluding Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Pricing Reference Date”	the announcement date of the resolutions of the first board meeting of Qianjiang Biochemical to consider issues related to the Transactions
“Profit Guarantee Agreement”	the profit forecast of equity acquired through share issuance and indemnity agreement (《發行股份購買資產的盈利預測補償協議》) dated 6 June 2021 entered into among Qianjiang Biochemical, Haining Water Investment Group and the Company
“Profit Guarantee Period”	for three financial years commencing from the date of completion of the Transactions, and in the context of this announcement, refers to the three years ended 31 December 2023, assuming the Transactions will be completed prior to 31 December 2021 as stipulated in the Profit Guarantee Agreement
“Qianjiang Biochemical”	Zhejiang Qianjiang Biochemical Co., Ltd.* (浙江錢江生物化學股份有限公司), a limited liability company established in the PRC, whose shares are listed and traded on the Shanghai Stock Exchange (stock code: 600796)
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Share(s)”	the Domestic Shares and/or H Shares
“Shareholder(s)”	the holder(s) of the Share(s)
“Shikang Water”	Haining Shikang Water Printing Co., Ltd.* (海寧實康水務有限公司), a limited liability company established in the PRC and one of the Underlying Companies
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Supervisor(s)”	supervisor(s) of the Company
“Target Equity”	51% equity interest in Zhejiang Haiyun Environmental Protection, 40% equity interest in Capital Water, 40% equity interest in Shikang Water, 40% equity interest in Lvdong Haiyun held by Haining Water Investment Group, and 49% equity interest in Zhejiang Haiyun Environmental Protection held by the Company
“Transactions”	the Acquisition and the Issuance
“Transitional Period”	the period from the day following the Valuation Reference Date to the date of change of the industrial and commercial registration regarding the transfer of the Target Equity under the Transactions to name of Qianjiang Biochemical (inclusive)
“Underlying Companies”	Zhejiang Haiyun Environmental Protection, Capital Water, Shikang Water and Lvdong Haiyun
“Valuation Reference Date”	31 December 2020
“Valuation Report”	the valuation report dated 28 May 2021 issued by the Independent Valuer in respect of Zhejiang Haiyun Valuation
“Vendors”	Haining Water Investment Group and the Company
“YHTH”	Yunnan Health&Cultural Tourism Holding Group Co., Ltd.* (雲南省康旅控股集團有限公司) (formerly known as Yunnan Metropolitan Construction Investment Co., Ltd.* (雲南省城市建設投資集團有限公司)), a limited liability company established in the PRC
“Yunnan Province Water”	Yunnan Province Water Industry Investment Co., Ltd.* (雲南省水務產業投資有限公司), a limited liability company established in the PRC, which is one of the controlling shareholders of the Company

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“Zhejiang Haiyun Environmental Protection”	Zhejiang Haiyun Environmental Protection Company Limited* (浙江海雲環保有限公司), a limited liability company established in the PRC and one of the Underlying Companies, 49% equity interest of which is held by the Company as at the Latest Practicable Date
“Zhejiang Haiyun Valuation”	the appraisal of the equity attributable to the owners of Zhejiang Haiyun Environmental Protection as at the Valuation Reference Date conducted by the Independent Valuer
“%”	per cent

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LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Yu Long (*Vice chairman*)

Ms. Ling Hui

Non-executive Directors:

Mr. Dai Richeng

Ms. Li Bo (*Chairperson*)

Mr. Chen Yong

Mr. Liu Hui

Independent Non-executive Directors:

Mr. Liu Shuen Kong

Mr. Zhong Wei

Mr. Zhou Beihai

**Registered office and principal place
of business in the PRC:**

Yunnan Water
2089 Haiyuan Bei Road
Gaoxin District
Kunming, Yunnan
PRC

Principal place of business in Hong Kong:

Suites 3110–11, 31/F, Tower 1
The Gateway, Harbour City
25 Canton Road, Tsim Sha Tsui, Kowloon
Hong Kong

25 June 2021

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
IN RELATION TO DISPOSAL OF EQUITY INTEREST OF
ASSOCIATED COMPANY
AND
ACQUISITION OF CONSIDERATION SHARES**

INTRODUCTION

References are made to the announcements of the Company dated 15 January 2021 and 6 June 2021 in relation to, among other things, the framework agreement in relation to the acquisition of equity interests through share issuance by Qianjiang Biochemical entered into among Qianjiang Biochemical, Haining Water Investment Group and the Company and the Transactions, respectively.

The Board is pleased to announce that on 6 June 2021, the Company entered into the Equity Acquisition and Share Issuance Agreement with Qianjiang Biochemical and Haining Water Investment Group, pursuant to which the Vendors conditionally agreed to sell the Target Equity, and Qianjiang

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Biochemical conditionally agreed to acquire the Target Equity at a total consideration of RMB2,103.2 million. Upon completion of the Acquisition, Qianjiang Biochemical will hold 100% equity interest in Zhejiang Haiyun Environmental Protection, 40% equity interest in Capital Water, 40% equity interest in Shikang Water and 40% equity interest in Lvdong Haiyun. On the same date, to specify the relevant arrangements in relation to the profit guarantee undertaking as stipulated in the Equity Acquisition and Share Issuance Agreement, the Company entered into the Profit Guarantee Agreement with Qianjiang Biochemical and Haining Water Investment Group, pursuant to which the Vendors undertook to indemnify Qianjiang Biochemical in the event that Zhejiang Haiyun Environmental Protection fails to achieve any of the Minimum Net Profits for the relevant financial years during the Profit Guarantee Period by way of share buy-back by Qiaojiang Biochemical. In the event that the number of shares to be repurchased by Qianjiang Biochemical exceeds the respective number of Consideration Shares held by the Vendors, the remaining amount of the indemnity to be paid to Qianjiang Biochemical arising from the aforesaid circumstances shall be settled by the Vendors in cash.

The Consideration will be settled by Qianjiang Biochemical through the issuance of the Consideration Shares. The Parties agreed that the Issue Price of the Consideration Shares is approximately RMB4.43 per Consideration Share. Based on the Consideration and the Issue Price, the total number of the Consideration Shares is 474,762,979, representing approximately 61.2% of the equity interest of Qianjiang Biochemical as enlarged by the Issuance upon completion of the Transactions (assuming there will be no other change in the registered capital of Qianjiang Biochemical). Upon completion of the Transactions, the Company will cease to hold any equity interest in Zhejiang Haiyun Environmental Protection and will hold approximately 22.6% equity interest in Qianjiang Biochemical (assuming there will be no other change in the registered capital of Qianjiang Biochemical), which will be amounted for as an associated company of the Company.

As at the Latest Practicable Date, Zhejiang Haiyun Environmental Protection is held as to 49% by the Company, and hence an associated company of the Company. As the highest of the applicable size test percentage ratios in relation to the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder exceeds 25% but is less than 75%, the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder constitute major transactions under Chapter 14 of the Listing Rules, and are subject to reporting, announcement and Shareholders' approval requirements.

Pursuant to Rule 14.44 of the Listing Rules, Shareholders' approval of the Equity Acquisition and Share Issuance Agreement, the Profit Guarantee Agreement and the transactions contemplated thereunder may be given by way of written Shareholders' approval in lieu of holding a general meeting if (1) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Equity Acquisition and Share Issuance Agreement and the Profit Guarantee Agreement; and (2) the written Shareholders' approval has been obtained from a Shareholder or a closely allied group of Shareholders who holds or together hold more than 50% of the voting rights at that general meeting to approve the Equity Acquisition and Share Issuance Agreement and the Profit Guarantee Agreement.

Written approval for the Equity Acquisition and Share Issuance Agreement, the Profit Guarantee Agreement and the transactions contemplated thereunder has been obtained from the Closely Allied Group which together holds more than 50% of the voting rights at a general meeting. As such, no general meeting will be convened for the purpose of approving the Equity Acquisition and Share Issuance Agreement, the Profit Guarantee Agreement and the transactions contemplated thereunder.

The purposes of this circular are to provide you with, among other things, further details of the Transactions.

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EQUITY ACQUISITION AND SHARE ISSUANCE AGREEMENT

The principal terms of the Equity Acquisition and Share Issuance Agreement are set out as follows:

Date: 6 June 2021

Parties: (i) Qianjiang Biochemical;
(ii) Haining Water Investment Group; and
(iii) the Company

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of Qianjiang Biochemical, Haining Water Investment Group and their respective ultimate beneficial owners is third party independent of the Company and its connected persons (as defined in the Listing Rules) as at the Latest Practicable Date.

Target Equity: (i) 49% and 51% equity interest in Zhejiang Haiyun Environmental Protection held by the Company and Haining Water Investment Group, respectively;
(ii) 40% equity interest in Capital Water held by Haining Water Investment Group;
(iii) 40% equity interest in Shikang Water held by Haining Water Investment Group; and
(iv) 40% equity interest in Lvdong Haiyun held by Haining Water Investment Group.

Consideration: The total consideration for the Target Equity is RMB2,103.2 million, which was determined by the Parties upon arm's length negotiation with reference to the respective appraised values of the Underlying Companies using market approach as at the Valuation Reference Date as set out in the respective valuation reports issued by the Independent Valuer, among which:

- (i) in respect of the acquisition of 100% equity interest in Zhejiang Haiyun Environmental Protection, the total consideration is RMB1,586 million, comprising the consideration to be paid by Qianjiang Biochemical to the Company and Haining Water Investment Group in the amount of RMB777.14 million and RMB808.86 million, respectively, for further details of the valuation of Zhejiang Haiyun Environmental Protection, please refer to the paragraphs headed "Zhejiang Haiyun Valuation" below;
- (ii) in respect of the acquisition of 40% equity interest in Capital Water, the consideration to be paid by Qianjiang Biochemical to Haining Water Investment Group is RMB138.8 million;

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- (iii) in respect of the acquisition of 40% equity interest in Shikang Water, the consideration to be paid by Qianjiang Biochemical to Haining Water Investment Group is RMB95.6 million; and
- (iv) in respect of the acquisition of 40% equity interest in Lvdong Haiyun, the consideration to be paid by Qianjiang Biochemical to Haining Water Investment Group is RMB282.8 million.

Zhejiang Haiyun Valuation

In respect of the acquisition of 100% equity interest of Zhejiang Haiyun Environmental Protection, the Zhejiang Haiyun Valuation as at the Valuation Reference Date was conducted by the Independent Valuer using the market approach as engaged by all Parties to the Equity Acquisition and Share Issuance Agreement.

Canwin Appraisal Co., Ltd* (坤元資產評估有限公司), the Independent Valuer, formerly known as Zhejiang State-owned Assets Evaluation Center* (浙江國有資產評估中心), was established on 5 July 1990 with the approval of Zhejiang Provincial Department of Finance. It has obtained the qualification certificate for state-owned assets appraisal in February 1991, and was jointly approved by the National State-owned Assets Administration Bureau and the China Securities Regulatory Commission in April 1993 to become one of the first 21 appraisal firms in the PRC to obtain the qualification for the appraisal of the assets of securities business. The appraisal qualifications possessed by the Independent Valuer include: (i) the filing as an assets appraisal agency for securities and futures related business (with the Ministry of Finance and the CSRC); (ii) the assets appraisal qualification (filed with Hangzhou Finance Bureau under the authorisation of Zhejiang Provincial Department of Finance (namely Hang Cai Zi Bei An [2018] No. 1)); and (iii) the qualification for consultancy services relating to the confidential businesses of the military industry and security and confidential conditions (filed with the State Administration of Science, Technology and Industry for National Defence, PRC). As at the Latest Practicable Date, the Independent Valuer had no shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group and has no direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group. In addition, as confirmed by the Independent Valuer, the valuation report of Zhejiang Haiyun Environmental Protection was prepared in accordance with, among other things, the Asset Evaluation Standards — Basic Standards (《資產評估準則 — 基本準則》) which was issued by Ministry of Finance of the PRC. Based on the above, the Board is of the view that the Independent Valuer is independent and competent to provide its professional services to carry out the valuation of Zhejiang Haiyun Environmental Protection for the purpose of the Transactions.

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Set forth below are the key assumptions adopted in the Valuation Report:

- (1) Any income forecast involved in Zhejiang Haiyun Valuation is based on the corporate development plans and profit forecast provided by the appraised entity, i.e. Zhejiang Haiyun Environmental Protection, while maintaining its current scope of operations and going concern status;
- (2) The management of Zhejiang Haiyun Environmental Protection is diligent and responsible, with adequate management skills and good professional ethics;
- (3) The operating income, costs and expenses, expenditures on renewals and improvements, etc. of Zhejiang Haiyun Environmental Protection for each year are incurred evenly during the year;
- (4) The accounting policies adopted by Zhejiang Haiyun Environmental Protection during the income forecast period are consistent with those adopted as at the Valuation Reference Date in all material respects; and
- (5) There are no material adverse effects on Zhejiang Haiyun Environmental Protection caused by other force majeure factors beyond the control of human and unforeseeable factors.

For the purposes of the market approach, the Independent Valuer has adopted the listed company comparison approach, which refers to a specific method of obtaining and analyzing the operating and financial data of comparable listed companies, calculating the value ratio, and determining the value of the valuation subject based on comparison and analysis with the comparable companies selected. In this regard, the Independent Valuer has adopted the following selection criteria in selecting the comparable companies for comparison with Zhejiang Haiyun Environmental Protection (the “**Selection Criteria**”):

(1) *Having a certain period of listing and trading history*

Considering that certain amount of historical data on stock transactions are needed as statistical processing is required for the operation of the listed company comparison method, the comparable companies are generally listed for a certain period of time; on the other hand, the comparable companies are required to keep relatively stable business operations and a certain period of trading history to effectively ensure the stability of the operations of the comparable companies. It is generally recommended that the comparable companies should have at least 24 months (2 years) of listing and trading history.

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(2) *Operating the same or similar businesses for a period of not less than 24 months*

The comparable companies shall be engaged in the same or similar businesses to the appraised entity for a period of not less than 24 months in order to avoid the situation where the comparable companies have just started to engage in such businesses as a result of asset restructuring and other reasons.

(3) *Comparable production scale of enterprises*

Comparable production scale of enterprises generally requires comparable asset size and capacity, such requirement can be relaxed where necessary.

(4) *Similar operating performance of enterprises*

Similar operating performance of enterprises means that the comparable companies should have similar operating performance status to that of the appraised entity.

(5) *Additional criteria in other areas*

Additional criteria in other areas mainly refer to further requirements for the comparable companies to be comparable in terms of product mix and other respects, where possible, in order to increase the comparability of comparable companies with the appraised entity. Further comparability conditions in the above areas can ensure higher comparability of the comparable companies.

Based on the Selection Criteria set out above, the Independent Valuer has selected four comparable companies (the “**Comparable Companies**”) for the purposes of the listed company comparison approach, details of which are set out below:

No.	Stock code	Name of securities	Principal business
1	000544.SZ	Zhongyuan Environment Protection	Sewage treatment, heating sales, engineering construction and management
2	300664.SZ	Pengyao Environmental Protection	Investment and operation business, engineering contracting business, equipment production and sales business, design and other businesses
3	300388.SZ	CECEP Guozhen	Comprehensive services for water environment treatment, comprehensive services for industrial wastewater treatment, comprehensive services for environmental treatment in small towns
4	300692.SZ	Zhonghuan Environmental Protection	Investment and operation services, engineering contracting services

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As the consideration in relation to the acquisition of Zhejiang Haiyun Environmental Protection was determined with reference to, among others, the valuation of Zhejiang Haiyun Environmental Protection as at the Valuation Reference Date conducted by the Independent Valuer, the Board has reviewed the valuation report of the Zhejiang Haiyun Valuation and discussed with the Independent Valuer regarding the valuation methodology, principal assumptions, the Selection Criteria and the relevant comparable companies adopted for the Zhejiang Haiyun Valuation.

Valuation methodology and principal assumptions

The Board understands that the common valuation approaches are the asset-based approach, the income approach and the market approach, of which the asset-based approach and the market approach were used in the appraisal of the equity interests of Zhejiang Haiyun Environmental Protection. The valuation results from the market approach, which is primarily based on the ratio analysis of comparable listed companies, was adopted by the Independent Valuer for the Zhejiang Haiyun Valuation instead of those from the asset-based approach. Given that the market approach is based on the analysis and comparison of similar comparable companies in a mature stock market on which the underlying enterprise is listed, and the market price of listed companies is a fair value derived from free trading of investors under fair market conditions, and the value of the appraised object is assessed based on references from the actual market, the Independent Valuer considers that this approach embodies the characteristics of direct valuation perspective and valuation channel, intuitive valuation process, direct market-based valuation information and convincing valuation results. Therefore, the Independent Valuer is of the view that the valuation results of the market approach can better reflect the judgment of investors on the fair value of the underlying enterprises under the current market conditions as compared to the asset-based approach. As to the market approach adopted, the Independent Valuer has employed the listed company comparison approach which refers to a specific method of obtaining and analyzing the operating and financial data of comparable listed companies, calculating the value ratio, and determining the value of the valuation subject based on comparison and analysis with the appraised entity, instead of the transaction case comparison approach as the Independent Valuer considered it inappropriate given that insufficient comparable transaction cases which are relatively similar to Zhejiang Haiyun Environmental Protection in terms of detailed information and transaction time are available. In this regard, the Independent Valuer mainly assumed that the current management, business operations, financial position and accounting policies of Zhejiang Haiyun Environmental Protection remain stable without any material adverse change and that Zhejiang Haiyun Environmental Protection is operating on a going-concern basis. As advised by the Independent Valuer, the above are the usual methodology and assumptions adopted by a professional valuer in the circumstances for such kind of business valuation. As such, considering other factors taken into account by the Independent Valuer for the selection of valuation methodology and the business nature of Zhejiang Haiyun Environmental Protection, the Board is of the view that the valuation methodology and the principal assumptions adopted in the Zhejiang Haiyun Valuation are fair and reasonable.

LETTER FROM THE BOARD

Selection Criteria and Comparable Companies

The listed company comparison approach is used to determine the value ratio of the appraised entity by analyzing and adjusting the value of all shareholders' equity in comparable listed companies and their profitability indicators, assets value or other specific non-financial indicators, and then estimating the value of all shareholders' equity in the appraised entity according to its profitability indicators, assets value or other specific non-financial indicators. For the purposes of the listed company comparison approach adopted, the Independent Valuer selected the Comparable Companies based on the Selection Criteria as set out above among a number of listed companies in the A-share market in the PRC which are mainly engaged in water-related business as appeared on the search results conducted by the Independent Valuer. The Directors' views on the Selection Criteria and the Comparable Companies were summarised as follows:

- the Comparable Companies selected by the Independent Valuer have listing periods of no less than 2 years from the Valuation Reference Date, the Board believes that the Comparable Companies having relatively long listing periods demonstrate higher similarity to Zhejiang Haiyun Environmental Protection in terms of stability of business operations and financial position;
- the Independent Valuer has excluded listed companies with H shares to enhance the similarities of the Comparable Companies with Zhejiang Haiyun Environmental Protection, the Board considers this appropriate given that Zhejiang Haiyun Environmental Protection only has one class of shares;
- the Independent Valuer has eliminated listed companies with significantly different business structures as compared to that of Zhejiang Haiyun Environmental Protection based on their major sources of income and business scope. The Board concurs with the aforesaid approach of the Independent Valuer given that the scope of water-related business is intrinsically broad and considering that Zhejiang Haiyun Environmental Protection has multiple business segments, namely environmental engineering installation and material sales, sewage treatment and recycling, solid waste removal and disposal, and water treatment and supply, with a focus on the environmental engineering installation and materials segment, being its major source of income during the past two financial years, it is logical to select companies with closely similar business structure based on the similarity in major income source; and

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- companies with excessive disparity in production scale and business performance are excluded by the Independent Valuer. The Board regards Zhejiang Haiyun Environmental Protection as a capital intensive company in view of business nature as abovementioned with substantial investment in equipment and facilities required for its daily operations, accordingly, the Board considers it fair and reasonable to select Comparable Companies with similar production scale and total assets. Besides, Zhejiang Haiyun Environmental Protection has been profit-making in the past two financial years, the Board therefore concurs with the view of the Independent Valuer to exclude companies with operating losses.

Major dissimilarities between the Comparable Companies and Zhejiang Haiyun Environmental Protection

While the total assets, profitability, management efficiency and growth potential of the Comparable Companies were similar and comparable to that of Zhejiang Haiyun Environmental Protection, a few of the Comparable Companies do not provide solid waste treatment related services. Moreover, most of the Comparable Companies appeared to have a larger scale of operations relative to Zhejiang Haiyun Environmental Protection.

Further, all of the Comparable Companies are listed in the PRC, whereas Zhejiang Haiyun Environmental Protection is a private company, whose equity is not tradable on any of the stock exchanges. In this regard, the Independent Valuer has estimated the adequate discount rate for such lack of liquidity, taking into account the actual situation in the PRC in order to make relevant adjustments in the estimation of the value of equity interest of Zhejiang Haiyun Environmental Protection. The Independent Valuer has applied a discount rate of 31.10% for the lack of liquidity in the Zhejiang Haiyun Valuation based on its analysis and comparison of the difference in the average price-to-earning (P/E) ratios for merger and acquisition transactions of minority shareholdings in non-listed companies and listed companies during 2018 and 2020.

After considering the similarities and dissimilarities in terms of business scope, scale of operation and lack of equity liquidity, the Independent Valuer considers that the Comparable Companies are fair and representative samples, and the Independent Valuer has further confirmed that the Comparable Companies selected by it for the Zhejiang Haiyun Valuation represents an exhaustive list based on its best knowledge and information available.

In view of the above, the Board considers the Selection Criteria adopted are fair and reasonable and the Comparable Companies selected represent fair and representative samples.

LETTER FROM THE BOARD

Valuation

The entire equity interest of Zhejiang Haiyun Environmental Protection as at the Valuation Reference Date as appraised by the Independent Valuer amounted to RMB1,586 million. Based on the industry characteristics, the Independent Valuer has adopted (i) the price-to-book (PB) ratio and (ii) the full-investment EV/NOIAT ratio valuation model to evaluate the equity price of Zhejiang Haiyun Environmental Protection based on the adjusted average PB ratios and EV/NOIAT ratios of the Comparable Companies.

- (1) Calculation formula under the price-to-book ratio (PB) valuation model is:

Final valuation results of equity value = PB of the target company × net assets of the target company × (1 – discount rate for lack of liquidity) × (1 + premium rate of control) + surplus assets + net non-operating assets

Of which:

PB of the target company = weighted average of the corrected PB of comparable companies

Corrected PB of comparable companies = PB of comparable companies × PB correction coefficient of comparable companies

PB correction coefficient of comparable companies = adjustment coefficient for Π impact factor A_i

- (2) Calculation formula under the EV/NOIAT valuation model is:

Final valuation results of equity value = (EV/NOIAT of the target company × NOIAT of the target company – interest-bearing debt – minority interests) × (1 – discount rate for lack of liquidity) × (1 + premium rate of control) + surplus assets + net non-operating assets

Of which:

EV/NOIAT of the target company = weighted average of the corrected EV/NOIAT of comparable companies

Corrected EV/NOIAT of comparable companies = EV/NOIAT of comparable companies × EV/NOIAT correction coefficient of comparable companies

EV/NOIAT correction coefficient of comparable companies = adjustment coefficient for Π impact factor A_i

LETTER FROM THE BOARD

The results of evaluating as entrusted the value of all shareholders' equity of Zhejiang Haiyun Environmental Protection are calculated based on the formula. The average of the calculated value of the shareholders' equity of Zhejiang Haiyun Environmental Protection under the two valuation models is taken as the valuation results of the value of its shareholders' equity.

The specific calculation process is as follows:

No.	Item	<i>Amount: RMB0'000</i>	
		PB	EV/NOIAT
1	Value ratio of the appraised entity taken	1.73	13.46
2	Corresponding parameters of the appraised entity	114,376.94	30,475.71
3	Enterprise value (EV) of entire investment in the appraised entity		410,203.06
4	Interest-bearing debt of the assessed entity		140,281.08
5	Minority interests		58,842.06
6	Value of fully liquid operating equity	197,872.11	211,079.92
7	Discount rate for lack of liquidity	31.10%	31.10%
8	Value of operating equity in the appraised entity	136,333.88	145,434.06
9	Premium rate of control	7.20%	7.20%
10	Value of operating equity with control	146,149.92	155,905.31
11	Surplus assets	28,871.64	28,871.64
12	Net non-operating assets	-21,278.88	-21,278.88
13	Market value of equity (rounded)	153,700.00	163,500.00
14	Appraisal results (rounded)	158,600.00	

Settlement of the Consideration:

Qianjiang Biochemical shall settle the Consideration to the Vendors by means of issue of the Consideration Shares.

Issue Price

The Consideration Shares to be issued to the Vendors are ordinary RMB-denominated shares with a par value of RMB1.00 each. The Issue Price per Consideration Share is determined based on 90% of the average trading price of the shares of Qianjiang Biochemical for 20 trading days before the Pricing Reference Date, based on which the Issue Price is determined to be approximately RMB4.43 per Consideration Share. The final Issue Price is subject to approval at the general meeting of Qianjiang Biochemical.

LETTER FROM THE BOARD

Number of Consideration Shares

Based on the consideration of the Target Equity and the Issue Price as set out above, the total number of the Consideration Shares is 474,762,979, representing approximately 61.2% of the equity interest of Qianjiang Biochemical as enlarged by the Issuance upon completion of the Transactions.

The respective number of the Consideration Shares to be issued to Haining Water Investment Group and the Company is as follows:

- (i) for Haining Water Investment Group: 299,336,343, representing approximately 38.6% of the equity interest of Qianjiang Biochemical as enlarged by the Issuance upon completion of the Transactions; and
- (ii) for the Company: 175,426,636, representing approximately 22.6% of the equity interest of Qianjiang Biochemical as enlarged by the Issuance upon completion of the Transactions.

During the period from the Pricing Reference Date to the date of issue of the Consideration Shares, in case of other ex-right or ex-dividend events such as distribution of dividend, bonus issue, conversion of reserve fund into share capital, etc. occurred on the part of Qianjiang Biochemical, the Issue Price and number of Consideration Shares to be issued shall be adjusted accordingly as required.

The final number of Consideration Shares to be issued by Qianjiang Biochemical to Haining Water Investment Group and the Company in respect of the Acquisition is subject to consideration and approval at the general meeting of Qianjiang Biochemical and approval by the CSRC.

Delivery and transfer
of the Target Equity:

After the Equity Acquisition and Share Issuance Agreement becomes effective, the Parties shall make their best efforts to complete the procedures of delivering the Target Equity. From the date of completion of procedures for changes in industrial and commercial registration regarding the transfer of the Target Equity to the name of Qianjiang Biochemical, Qianjiang Biochemical will own 100% equity interest in Zhejiang Haiyun Environmental Protection, 40% equity interest in Capital Water, 40% equity interest in Shikang Water and 40% equity interest in Lvdong Haiyun upon completion of the Transactions.

LETTER FROM THE BOARD

Qianjiang Biochemical shall complete the procedures for applying for securities registration for the Vendors and the procedures for changes in the industrial and commercial registration of Qianjiang Biochemical at the Shanghai Stock Exchange and China Securities Depository and Clearing Corporation Limited, Shanghai Branch within 30 days after obtaining the approval from the CSRC in accordance with the relevant requirements of the CSRC and Shanghai Stock Exchange in respect of the additional shares to be issued by Qianjiang Biochemical to the Vendors. During the process, the Vendors shall provide necessary cooperation to Qianjiang Biochemical. The completion is expected to take place in December 2021.

Transitional Period
arrangements:

During the Transitional Period, any gain or loss relating to the Target Equity shall be attributable to or borne by Qianjiang Biochemical. As the Consideration was determined with reference to, among other factors, the valuation of the Target Equity as at the Valuation Reference Date, and hence reflecting the value of the Underlying Companies as at the Valuation Reference Date, the Directors therefore consider that the attribution of any gain or loss relating to the Target Equity during the Transitional Period subsequent to the Valuation Reference Date to Qianjiang Biochemical is fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

Accumulated
undistributed profit:

Upon completion of the Transactions, the undistributed profit of Qianjiang Biochemical accumulated shall be jointly enjoyed by the new and existing shareholders of Qianjiang Biochemical in proportion to their respective shareholdings in Qianjiang Biochemical upon completion of the Transactions.

Lock-up period of the
Consideration Shares:

The respective lock-up period of the Consideration Shares acquired by the Vendors as a result of the issue of the Consideration Shares in respect of the Transactions by Qianjiang Biochemical is agreed as follows:

- (i) for Haining Water Investment Group: no transfer shall be effected within 36 months from the date of completion of the Issuance. Within 6 months upon completion of the Transactions, if the closing price of the shares of Qianjiang Biochemical for 20 consecutive trading days is lower than the Issue Price, or if the closing price at the end of the 6-month period upon completion of the Transactions is lower than the Issue Price, the lock-up period for the shares of Qianjiang Biochemical acquired by Haining Water Investment Group will be automatically extended for 6 months; and
- (ii) for the Company: no transfer shall be effected within 36 months from the date of completion of the Issuance.

LETTER FROM THE BOARD

The aforesaid unlocking of Consideration Shares of Qianjiang Biochemical shall be carried out in accordance with the relevant regulations of the CSRC and Shanghai Stock Exchange. If the lock-up period as required under regulatory opinions or relevant regulations of the securities regulatory authorities is longer than the respective lock-up period for Haining Water Investment Group and the Company as set out above, such respective lock-up period shall be adjusted in accordance with the regulatory opinions and relevant regulations of the relevant securities regulatory authorities.

Effective conditions:

The Equity Acquisition and Share Issuance Agreement shall become effective from the date on which it is signed and sealed by the legal representatives and/or authorized representatives of the Parties, which is subject to the fulfillment of all of the following conditions in respect of the Transactions:

1. The board of directors of Qianjiang Biochemical has undergone the statutory procedures to consider the relevant resolution on acquiring the Target Equity from the Vendors by means of issue of the Consideration Shares;
2. The general meeting of Qianjiang Biochemical has undergone the statutory procedures to consider and approve the relevant resolution on acquiring the Target Equity from the Vendors by means of issue of the Consideration Shares;
3. The Company has undergone all necessary internal approval procedures;
4. The competent state-owned assets supervision and administration authority has approved or agreed with the issue of the Consideration Shares to acquire the Target Equity by Qianjiang Biochemical; and
5. The CSRC has approved the issue of the Consideration Shares to acquire the Target Equity by Qianjiang Biochemical.

LETTER FROM THE BOARD

Profit guarantee
undertaking:

In respect of Zhejiang Haiyun Environmental Protection, in the event that Zhejiang Haiyun Environmental Protection fails to achieve any of the minimum net profit requirements during the profit guarantee period as undertaken by the Vendors pursuant to the Profit Guarantee Agreement, the Vendors undertake to indemnify Qianjiang Biochemical. On the same date of signing the Equity Acquisition and Share Issuance Agreement, the Parties have entered into the Profit Guarantee Agreement to specify the details and arrangements relating to the guaranteed performance of Zhejiang Haiyun Environmental Protection and the relevant indemnity in case of any shortfall between the actual profits and the Minimum Net Profits of Zhejiang Haiyun Environmental Protection for a relevant financial year/period during the profit guarantee period for three financial years commencing from the financial year where the Transactions are completed (i.e. for three financial years ended 31 December 2023 assuming the Transactions will be completed prior to 31 December 2021).

Upon completion of the Transactions, Qianjiang Biochemical will engage an accounting firm qualified in securities and futures business to issue a special audit opinion on the achievement of the Minimum Net Profits by Zhejiang Haiyun Environmental Protection at the end of each of the relevant financial years comprising the Profit Guarantee Period. In case of any shortfall between the actual profit and the Minimum Net Profit of Zhejiang Haiyun Environmental Protection for the relevant financial year during the Profit Guarantee Period pursuant to the aforesaid special audit opinion, the Vendors shall indemnify Qianjiang Biochemical such shortfall through share buy-back by Qianjiang Biochemical at the share price of RMB1.00 calculated once every financial year during the Profit Guarantee Period in proportion to their then respective shareholdings held in Zhejiang Haiyun Environmental Protection.

Within three months upon the expiration of the Profit Guarantee Period, Qianjiang Biochemical will engage an accounting firm qualified in securities and futures business to conduct an impairment test on Zhejiang Haiyun Environmental Protection and issue a special audit opinion. If the impairment amount of Zhejiang Haiyun Environmental Protection as at the end of the relevant period based on the aforesaid special audit opinion exceeds the sum of the total number of shares repurchased by Qianjiang Biochemical during the Profit Guarantee Period multiplied by the share price of RMB1.00, the Vendors shall indemnify Qianjiang Biochemical by way of share buy-back in proportion to their then respective shareholdings held in Zhejiang Haiyun Environmental Protection in accordance with the terms and conditions as stipulated in the Profit Guarantee Agreement.

In the event that the number of shares to be repurchased by Qianjiang Biochemical in respect of the above circumstances exceeds the respective number of Consideration Shares held by the Vendors, the remaining amount of the indemnity to be paid to Qianjiang Biochemical arising from the aforesaid circumstances shall be settled by the Vendors in cash.

LETTER FROM THE BOARD

INFORMATION ON THE PARTIES

The Company

The Company is one of the leading integrated service providers in the urban wastewater treatment and water supply industry in the PRC. Its principal operations include the investment, construction and management services in relation to urban water supply, wastewater treatment, solid waste treatment and environmental governance projects, equipment sales and other environmental protection related services.

Qianjiang Biochemical

Qianjiang Biochemical is a company established in the PRC whose shares are listed and traded on the Shanghai Stock Exchange (stock code: 600796). The main business of Qianjiang Biochemical includes production of veterinary drug, manufacturing, sales and services of biopesticide, enzyme preparations, gibberellin and citric acid, thermal power and others. Its controlling shareholder is Haining City Asset Management Company* (海寧市資產經營公司) and its ultimate actual controller is Haining City Finance Bureau* (海寧市財政局).

Haining Water Investment Group

Haining Water Investment Group is a company established in the PRC. Its main business includes investment, development, construction, operation and management of water supply and wastewater infrastructure, wastewater treatment infrastructure and water-related projects. Its controlling shareholder is Haining City Asset Management Company* (海寧市資產經營公司) and its ultimate actual controller is Haining City Finance Bureau* (海寧市財政局).

INFORMATION OF ZHEJIANG HAIYUN ENVIRONMENTAL PROTECTION AND OTHER UNDERLYING COMPANIES

Zhejiang Haiyun Environmental Protection is a company incorporated in the PRC and is an associated company owned as to 49% by the Company. Its controlling shareholder is Haining Water Investment Group and its ultimate actual controller is Haining City Finance Bureau* (海寧市財政局). Its main business includes integrated environment protection and treatment, rectification of lakes and rivers, the investment, development, construction, operation and management of water supply and wastewater infrastructure, wastewater treatment infrastructure and environment-related projects, the research and development, design and sales of environmental protection equipment and the development of environmental sanitation technologies.

LETTER FROM THE BOARD

Set out below is the key unaudited financial information of Zhejiang Haiyun Environmental Protection for the two financial years ended 31 December 2019 and 31 December 2020 prepared according to the PRC accounting standards:

	For the years ended	
	31 December	
	2019	2020
	RMB'000	RMB'000
Revenue	1,133,259	1,458,713
Net profit before tax	121,123	162,630
Net profit after tax	94,595	114,880

The audited equity of owners of Zhejiang Haiyun Environmental Protection as at 31 December 2020 amounted to approximately RMB1,261 million. The entire equity interest of Zhejiang Haiyun Environmental Protection as at the Valuation Reference Date as appraised by the Independent Valuer amounted to RMB1,586 million. As at the Latest Practicable Date, the Company holds 49% equity interest in Zhejiang Haiyun Environmental Protection, which amounted to RMB777.14 million.

Each of Capital Water, Shikang Water and Lvdong Haiyun and their respective ultimate beneficial owners is a third party independent of the Company and its connected persons (as defined in the Listing Rules) as at the Latest Practicable Date.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

Given that Qianjiang Biochemical is a company listed on the Shanghai Stock Exchange, the acquisition of the equity interests in Qianjiang Biochemical through the Transactions will enable the Company to improve the liquidity, and hence quality of its assets and enhance its ability to continue as a going concern, which is in line with the strategic development objective of the Company. On the other hand, the entering into of the Profit Guarantee Agreement gives effect to the profit guarantee undertaking under the Equity Acquisition and Share Issuance Agreement and allows the flexibility to adjust the Consideration subsequent to the completion of the Transactions subject to the future business performance of Zhejiang Haiyun Environmental Protection so as to better reflect the commercial reality, which in turn, facilitates the entering into of the Equity Acquisition and Share Issuance Agreement by the Parties.

The Directors are confident of the business performance of Zhejiang Haiyun Environmental Protection taking into account its historical performance as well as the substantial market demand and continuous growth in the environmental protection industry and currently do not expect the indemnity mechanism under the Profit Guarantee Agreement would be triggered. Therefore, notwithstanding the profit guarantee undertaking, the Board considers that the transactions under the Equity Acquisition and Share Issuance Agreement and the Profit Guarantee Agreement are fair and reasonable, and are in the interest of the Company and the Shareholders as a whole. Nevertheless, the Board cannot guarantee that the business conditions and prospects of Zhejiang Haiyun Environmental Protection will not change as a result of, among others, factors which are out of control of the Company. Shareholders and potential investors are reminded of the associated risk involved in the profit guarantee undertaking under the Profit Guarantee Agreement.

LETTER FROM THE BOARD

Based on the foregoing, the Directors (including the independent non-executive Directors) are of the view that the terms of the Equity Acquisition and Share Issuance Agreement, the Profit Guarantee Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable, and are in the interest of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE TRANSACTIONS

As at the Latest Practicable Date, Zhejiang Haiyun Environmental Protection had been accounted for as an associated company, and its financial results, assets and liabilities had not been consolidated in the accounts of the Group. Following the completion of the Transactions, Zhejiang Haiyun Environmental Protection will no longer be determined as an associated company of the Company. On the other hand, upon completion of the Transactions, the Company will hold approximately 22.6% of the equity interest in Qianjiang Biochemical, which will be treated as an associated company of the Company and its results will be accounted for as interests in associates as an additional asset with an increase in earnings yet without any changes in the total liabilities of the Group upon completion of the Transactions.

Based on the initial investment in Zhejiang Haiyun Environmental Protection by the Company, being the registered capital of Zhejiang Haiyun Environmental Protection paid up by the Company, of approximately RMB539 million and the consideration of the 49% equity interest in Zhejiang Haiyun Environmental Protection to be paid by Qianjiang Biochemical to the Company of RMB777.14 million to be settled by means of the issue of the number of the Consideration Shares of 175,426,636, it is estimated that the Group will record gains of approximately RMB238.14 million from the Transactions.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Zhejiang Haiyun Environmental Protection is held as to 49% by the Company, and hence an associated company of the Company. As the highest of the applicable size test percentage ratios in relation to the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder exceeds 25% but is less than 75%, the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder constitute major transactions under Chapter 14 of the Listing Rules, and are subject to reporting, announcement and Shareholders' approval requirements.

WRITTEN SHAREHOLDERS' APPROVAL

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Shareholders has material interest in the Equity Acquisition and Share Issuance Agreement, the Profit Guarantee Agreement and the transactions contemplated thereunder and therefore no Shareholder is required to abstain from voting if a general meeting were to be convened for the approval of the Equity Acquisition and Share Issuance Agreement, the Profit Guarantee Agreement.

Pursuant to Rule 14.44 of the Listing Rules, Shareholders' approval of the Equity Acquisition and Share Issuance Agreement, the Profit Guarantee Agreement may be given by way of written Shareholders' approval in lieu of holding a general meeting if (1) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Equity Acquisition and Share Issuance Agreement, the Profit Guarantee Agreement; and (2) the written Shareholders' approval has been obtained from a Shareholder or a closely allied group of Shareholders who holds or together hold more than 50% of the voting rights at that general meeting to approve the Equity Acquisition and Share Issuance Agreement, the Profit Guarantee Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

Written Shareholders' approval for the Equity Acquisition and Share Issuance Agreement, the Profit Guarantee Agreement and the transactions contemplated thereunder has been obtained from the Closely Allied Group which together holds more than 50% of the issued Shares giving the right to attend and vote at a general meeting:

Name	Type of Shares	Number of Shares held	Approximate percentage of total number of Shares in issue (Notes 1 and 2)
<i>Closely Allied Group</i>			
(1) Yunnan Province Water with its acting in concert parties (Mr. Liu Xujun, Mr. Huang Yunjian and Mr. Wang Yong)	Domestic Shares	361,487,162	30.30%
(2) Beijing OriginWater	Domestic Shares	286,650,000	24.02%
(3) Caiyun International	H Shares	<u>8,449,000</u>	<u>0.71%</u>
	<i>Sub-total:</i>	<u><u>656,586,162</u></u>	<u><u>55.03%</u></u>
Mr. Yu Long	Domestic Shares/ H Shares	11,590,000	0.97%
Yantai Xinzhen Tianying Equity Investment Center (Limited Partnership)	Domestic Shares	124,754,169	10.46%
25 Management Shareholders	Domestic Shares	18,300,000	1.53%
The National Council for Social Security Fund of the PRC	H Shares	30,454,900	2.55%
Public Shareholders	H Shares	<u>351,528,226</u>	<u>29.46%</u>
	<i>Total:</i>	<u><u>1,193,213,457</u></u>	<u><u>100%</u></u>

Notes:

- The percentage was calculated based on 1,193,213,457 issued Shares as at the Latest Practicable Date.
- The above percentages may not be exact figures due to rounding and the shareholding may not add up to 100%.

Accordingly, no general meeting will be convened for the purposes of approving the Equity Acquisition and Share Issuance Agreement, the Profit Guarantee Agreement and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

LETTER FROM THE BOARD

RECOMMENDATION

The Board considers that the terms of the Equity Acquisition and Share Issuance Agreement, the Profit Guarantee Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Had a special general meeting been convened for the approval of the Equity Acquisition and Share Issuance Agreement, the Profit Guarantee Agreement and the transactions contemplated thereunder, the Board would have recommended the Shareholders to vote in favour of the Equity Acquisition and Share Issuance Agreement, the Profit Guarantee Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By Order of the Board
Yunnan Water Investment Co., Limited*
Li Bo
Chairperson

* *For identification purposes only*

SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the three years ended 31 December 2020 are disclosed in the following documents which are published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.yunnanwater.cn.

- (i) Annual report of the Company for the year ended 31 December 2018 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/ltn201904251999.pdf>)
- (ii) Annual report of the Company for the year ended 31 December 2019 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042802729.pdf>)
- (iii) Annual report of the Company for the year ended 31 December 2020 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0428/2021042802606.pdf>)

WORKING CAPITAL

After taking into account the financial resources available to the Group, including the internally generated funds and the presently available credit facilities, the Directors, after due and careful enquiry, are of the opinion that the Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular, in the absence of unforeseeable circumstances.

INDEBTEDNESS

As at the close of business on 30 April 2021, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding indebtedness as summarised below:

Borrowings

The Group's borrowings primarily consisted of short-term and long-term bank borrowings, corporate bonds and other borrowings.

As at the close of business on 30 April 2021, the Group had total outstanding borrowings of approximately RMB27,150 million, further details of which are set out below:

	As at 30 April 2021 <i>RMB'000</i>
Non-current	
Long-term bank borrowings	
— Secured	14,085,310
— Unsecured	546,262
	<u>14,631,572</u>
Corporate bonds and other borrowings	
— Secured	965
— Unsecured	1,868,401
	<u>16,500,938</u>
Amount due to Shareholders	
— Caiyun International	1,618,193
— YHTH	2,040,483
	<u>20,159,614</u>
Current	
Short-term bank borrowings	
— Secured	744,530
— Unsecured	3,609,234
	<u>4,353,764</u>
Current portion of long-term bank borrowings	
— Secured	2,026,619
— Unsecured	283,296
	<u>6,663,679</u>
Current portion of corporate bonds and other borrowings	
— Secured	35,605
— Unsecured	291,597
	<u>27,150,495</u>
Total	<u>27,150,495</u>

As at the close of business on 30 April 2021, the Group had borrowings of approximately RMB16,893 million in aggregate which were secured by pledge of the Group's receivables under service concession arrangements, contract assets, land use rights, property, plant and equipment and intangible assets and the Company's investments in subsidiaries and a joint venture, and approximately RMB288 million, RMB1,728 million and RMB151 million of the Group's borrowings were guaranteed by a PRC local government, a related party and third parties, respectively. The amount due to Shareholders of approximately RMB3,659 million of the Group are unsecured, interest-free and repayable on demand.

Lease liabilities

As at the close of business on 30 April 2021, the Group, as a lessee, had lease liabilities for the remainder of the relevant lease terms amounting to approximately RMB48.9 million in aggregate, all of which were unsecured and unguaranteed.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payable in the ordinary course of business, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, any authorised or otherwise created but unissued term loans or other borrowings, indebtedness in nature of borrowings, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, which are either guaranteed, unguaranteed, secured, or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 30 April 2021 being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular.

MATERIAL ADVERSE CHANGE

The Directors confirm that there was no material adverse change in the financial or trading position or outlook of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up, and up to the Latest Practicable Date.

FINANCIAL AND TRADING PROSPECT OF THE GROUP

In the face of the severe and complex international situation, the severe impact of the epidemic and the tremendous pressure of the economic downturn, the Group was capable to tackle difficulties in 2020 by overcoming the adverse impact of COVID-19 pandemic, properly dealing with the severe and complex development environment, and carrying out substantial work in project operation, engineering construction and market development.

Going forward in 2021, on the basis of continuing to consolidate the existing project construction progress and operation management level, the Group will strengthen equity financing, reduce financial leverage, and focus on market opportunities in comprehensive solid waste treatment, sludge treatment and comprehensive rural environmental improvement, so as to further improve its profit quality.

The Group will overcome the obstacles brought by the impact of the COVID-19 epidemic, accelerate the implementation progress of projects under construction and planned to ensure the realisation of investment profits as soon as possible; At the same time, the Group will consider other ways of financing, such as equity financing to improve the existing capital structure, enhance the financing space, realise the repair of performance and valuation, so as to better realise the benign operation. Meanwhile, the Group will continue to implement the regional management mode, accelerate the cultivation of key projects through prudent and reasonable capital expenditure, so as to realise the adjustment of income structure and the stable expansion of business. The current plan of disposal of the existing businesses of the Company are set forth below:

On 4 March 2021, the Company has resolved to dispose 51% equity interest held by the Company (the “**Disposal Interest**”) in Yueyang Dongting Water Investment Co., Ltd.* (岳陽市洞庭水務投資有限公司) (“**Dongting Water**”). As the Company is a State-owned enterprise, the Disposal Interest constitutes a State-owned asset and the disposal of which is required to undergo the process of public tender through an approved equity exchange in accordance with the relevant PRC laws and regulations governing the

disposal of State-controlled assets. The potential disposal will be carried out through Yunnan Equity Exchange Co. Ltd.* (雲南產權交易所有限公司) (“YNEX”) and the successful bidder will enter into an equity transaction agreement with the Company according to the relevant rules and regulations of YNEX. The minimum consideration, being the initial bidding price for the Disposal Interest, is expected to be RMB76,500,000 (the “**Minimum Consideration**”), which was determined based on the preliminary asset appraised value of the Disposal Interest on 31 December 2020 and “the capital for investing in Dongting Water plus 10% annualised rate of return”, whichever is higher. As at the date of this circular, the valuation report in respect of the appraisal of the value of the equity interest of Dongting Water has not yet been finalised, which will be finalised before the formal tender notice is issued, and thus the asset appraised value is subject to the finalised valuation report. The final consideration will depend on the final bid price of the public tender, but will not be less than the Minimum Consideration in any event. For further details, please refer to the announcement of the Company dated 4 March 2021.

Save as disclosed above, the Company did not have any plan or intention, or has entered into any agreement, arrangement, understanding or negotiation (formal or informal, express or implied) to acquire any new businesses or dispose of any of its existing businesses in the next twelve months as at the Latest Practicable Date.

The Group will continue to carry out benchmarking management. By evaluating the relevant indicators reflecting the performance of operation management, the Group will formulate benchmarking management plan according to the actual situation of the Company and the project to integrate with the annual assessment of operation management. The Group will accelerate the improvement of quality and efficiency of existing projects and further optimise the yield of sewage projects, at the same time, to accelerate the promotion and popularisation of the intelligent water business of the Group, enhance the core competitiveness of the Group’s sewage treatment in rural areas, and build up the operation and management advantages of the Group.

The Group will continue to accelerate its progress in technology research and development and market promotion on the basis of core technology, fully tap into the potential of employees, attract and retain talents, and continuously enhance the enterprise’s innovation ability and sustainable development ability. At the same time, the Group pays close attention to various new policies and new hot spots in the field of environmental protection industry, pays close attention to technology exploration and technology promotion, cooperates with advantageous enterprises in the industry authorised by the government, provides one-stop solutions to cities and towns in order to further enhance the core competitiveness of the Group.

Looking forward, the Group will continue to adhere to the development goal of “based in Yunnan, covering the nation and going global, striving to be a leading integrated environmental services provider at the municipal level”* (立足雲南、面向全國、走向國際，致力成為領先的城鎮環境綜合服務商), and pay close attention to the development of the industry, grasp the industry development trend, further improve the Group’s technical strength, core competitiveness and social influence, and constantly create greater value for its shareholders.

* For identification purposes only

**ASSET VALUATION REPORT ON THE VALUATION OF
THE VALUE OF ALL SHAREHOLDERS' EQUITY OF ZHEJIANG HAIYUN
ENVIRONMENTAL PROTECTION COMPANY LIMITED INVOLVED IN
THE PROPOSED ACQUISITION OF ASSETS THROUGH THE ISSUANCE
OF SHARES BY ZHEJIANG QIANJIANG BIOCHEMICAL CO., LTD.**

Kun Yuan Ping Bao [2021] No. 397

Summary

THE VALUATION

Principals:	(1) Zhejiang Qianjiang Biochemical Co., Ltd.* (浙江錢江生物化學股份有限公司); (2) Haining Municipal Water Investment Group Co., Limited* (海寧市水務投資集團有限公司); and (3) Yunnan Water Investment Co., Limited* (雲南水務投資股份有限公司).
Appraised Entity:	Zhejiang Haiyun Environmental Protection Company Limited* (浙江海雲環保有限公司)
Valuation Subject:	All shareholders' equity of Zhejiang Haiyun Environmental Protection
Valuation Scope:	All assets and relevant liabilities of Haiyun Environmental Protection as at 31 December 2020 as reported by Zhejiang Haiyun Environmental Protection and audited by Pan-China Certified Public Accountants LLP
Value Type:	Market value
Valuation Benchmark Date:	31 December 2020
Valuation Methodology:	Market approach

MARKET APPROACH

The market approach collectively refers to the valuation methodology to determine the value of the valuation subject through comparing the valuation subject with comparable reference objects with the market price of reference objects as the basis.

Preconditions for application of the market approach

- (1) There is a fully developed and active capital market;
- (2) There are a sufficient number of comparable companies identical or similar to the valuation subject, or a sufficient number of transaction cases in the capital market;
- (3) The market information, financial information and other relevant information on comparable companies or transaction cases can be collected and obtained; and
- (4) It is convinced that the information and data based on which the valuation is made are representative and reasonable, and are valid as at the valuation benchmark date.

Model of the Market Approach

Introduction to the Market Approach

The two specific methods commonly used under the market approach are the listed company comparison method and the transaction case comparison method.

The listed company comparison approach refers to a specific method of obtaining and analyzing the operating and financial data of comparable listed companies, calculating the value ratio, and determining the value of the valuation subject based on comparison and analysis with the appraised entity.

The transaction case comparison method refers to a specific method of obtaining and analyzing the transaction, acquisition and merger case data of comparable companies, calculating the value ratio, and determining the value of the valuation subject based on comparison and analysis with the appraised entity.

Selection of Valuation Methodology

As it is difficult to collect sufficient comparable transaction cases that are relatively similar to Zhejiang Haiyun Environmental Protection in terms of detailed information and transaction time, it is inappropriate to adopt the transaction case comparison method in this valuation. In view of the relatively transparent and objective nature of the operating and financial data of comparable listed companies, the listed company comparison method enjoys better operability. In conjunction with the subject of this asset valuation, the valuation purpose and the information collected, the listed company comparison method has been adopted for the valuation of the value of all shareholders' equity of Zhejiang Haiyun Environmental Protection entrusted for the valuation.

The listed company comparison method is used to determine the value ratio of the appraised entity by analyzing and adjusting the value of all shareholders' equity in comparable listed companies and their profitability indicators, assets value or other specific non-financial indicators, and then estimating the value of all shareholders' equity in the appraised entity according to its profitability indicators, assets value or other specific non-financial indicators. The calculation formulas are set out as follows:

Value of all shareholders' equity = (value ratio of equity investment × corresponding parameter of the appraised entity) × (1 – discount rate for lack of liquidity) × (1 + premium rate of control) + net non-operating and surplus assets

Or:

Value of all shareholders' equity = (value ratio of full investment × corresponding parameter of the appraised entity – minority interest – interest-bearing debt) × (1 – discount rate for lack of liquidity) × (1 + premium rate of control) + net non-operating and surplus assets

Value ratio of the appraised entity = corresponding value ratio of comparable companies × correction coefficient

Valuation Ideas

This valuation has been carried out by using the listed company comparison method and the basic valuation ideas are as follows:

1. The comparable listed companies are identified by analyzing the industry, operation, size and financial position of the appraised entity. The comparable listed companies have similar characteristics to the appraised entity operationally and financially.
2. The key financial indicators of the appraised entity and the comparable listed companies are analyzed and compared.
3. Appropriate value ratios are selected for the comparable listed companies, and appropriate methods are used to correct and adjust them, and thereby the value ratio of the appraised entity is estimated.
4. Based on the value ratio of the appraised entity, after considering the appropriateness of the control premium and the liquidity discount, the value of the company's surplus assets and non-operating assets (liabilities) are added back on this basis to finally determine the equity value of the appraised entity.

Valuation Assumptions**A. *Basic Assumptions***

- (1) This valuation is based on the premise that there is a change in the owner of title interests in the appraised assets, which includes both a whole change and a partial change in the owner of title interests;
- (2) This valuation is based on the assumption of an open market transaction;
- (3) This valuation is based on the premise that the appraised entity continues as a going concern according to the planned operating target, that is, all assets of the appraised entity continue to be used in accordance with the current purpose and manner, without considering the change in the current purpose or change in the planning and use manner with unchanged purpose;
- (4) This valuation is based on the premise that the relevant legal documents, various accounting documents, books of accounts and other information provided by the appraised entity are true, complete, legal and reliable;
- (5) This valuation is based on the premise that the macro environment is relatively stable, that is, there are no significant changes in the existing national macroeconomy, politics and policies as well as the industrial policies of the industry in which the appraised entity is engaged, with continuous, healthy and stable development of the social economy; the national monetary and financial policies remain in the current state and do not cause significant fluctuations to the social economy; the existing regulations on the national taxation are maintained without significant changes in tax types and tax rates; and there are no significant changes in the prevailing interest rates and exchange rates, etc.; and

- (6) This valuation is based on the assumption that the business environment of the appraised entity is relatively stable, that is, there are no significant changes in the social, political, legal and economic business environment of the appraised entity's principal place of business and the region in which its business is conducted; the appraised entity is able to carry out its business activities within the established scope of business without any policy, legal or man-made obstacles.

B. Specific Assumptions

- (1) Any income forecast involved this valuation is based on the corporate development plans and profit forecast provided by the appraised entity while maintaining its current scope of operations and going concern status;
- (2) The management of the appraised entity is diligent and responsible, with adequate management skills and good professional ethics;
- (3) The operating income, costs and expenses, expenditures on renewals and improvements, etc. of the appraised entity for each year are incurred evenly during the year;
- (4) The accounting policies adopted by the appraised entity during the income forecast period are consistent with those adopted as at the valuation benchmark date in all material respects; and
- (5) There are no material adverse effects on the appraised entity caused by other force majeure factors beyond the control of human and unforeseeable factors.

Selection of Comparable Listed Companies

Selection Criteria for Comparable Listed Companies

- (1) *Having a certain period of listing and trading history*

Considering that certain amount of historical data on stock transactions are needed as statistical processing is required for the operation of the listed company comparison method, the comparable companies selected are generally listed for a certain period of time; on the other hand, the comparables are required to keep relatively stable business operations and a certain period of trading history will effectively ensure the stability of the comparables' operations. It is generally recommended that the comparables should have at least 24 months (2 years) of listing and trading history.

- (2) *Operating the same or similar businesses for a period of not less than 24 months*

The comparable companies shall be engaged in the same or similar businesses to the appraised entity for a period of not less than 24 months in order to avoid the situation where the comparable companies have just started to engage in such businesses as a result of asset restructuring and other reasons.

(3) Comparable production scale of enterprises

Comparable production scale of enterprises generally requires comparable asset size and capacity, such requirement can be relaxed where necessary.

(4) Similar operating performance of enterprises

Similar operating performance of enterprises means that the comparable companies should have similar operating performance status to that of the appraised assets.

(5) Additional criteria in other areas

Additional criteria in other areas mainly refer to further requirements for the comparable companies to be comparable in terms of product mix and other respects, where possible, in order to increase the comparability of comparable companies with the appraised entity. Further comparability conditions in the above areas can ensure higher comparability of the comparable companies.

Comparable Listed Companies

Based on the Selection Criteria set out above, the Independent Valuer has selected four comparable companies (the “**Comparable Companies**”) for the purposes of the listed company comparison approach, details of which are set out below:

No.	Stock code	Name of securities	Principal business
1	000544.SZ	Zhongyuan Environment Protection	Sewage treatment, heating sales, engineering construction and management
2	300664.SZ	Pengyao Environmental Protection	Investment and operation business, engineering contracting business, equipment production and sales business, design and other businesses
3	300388.SZ	CECEP Guozhen	Comprehensive services for water environment treatment, comprehensive services for industrial wastewater treatment, comprehensive services for environmental treatment in small towns
4	300692.SZ	Zhonghuan Environmental Protection	Investment and operation services, engineering contracting services

Market Approach Analysis, Estimation Process and Explanation of Conclusions

Under the listed company comparison approach, the value ratio of the appraised entity is determined by analysing and adjusting the value ratio between the value of all shareholders' equity and/or the overall enterprise value of comparable listed companies and their operating profitability indicators, asset values or other specific non-financial indicators, and then, the value of all shareholders' equity and/or the overall enterprise value would be estimated based on the operating profitability indicators, asset values or other specific non-financial indicators of the appraised entity.

Determination of Value Ratio

Based on characteristics of the industry where the appraised entity operates, the price-to-book ratio (PB) and the all-investment EV/NOIAT valuation model are used respectively in this valuation to evaluate the equity of Zhejiang Haiyun Environmental Protection.

- (1) Calculation formula under the price-to-book ratio (PB) valuation model is:

Final valuation results of equity value = PB of the target company × net assets of the target company × (1 – discount rate for lack of liquidity) × (1 + premium rate of control) + surplus assets + net non-operating assets

Of which:

PB of the target company = weighted average of the corrected PB of comparable companies

Corrected PB of comparable companies = PB of comparable companies × PB correction coefficient of comparable companies

PB correction coefficient of comparable companies = adjustment coefficient for Π impact factor A_i

- (2) Calculation formula under the EV/NOIAT valuation model is:

Final valuation results of equity value = (EV/NOIAT of the target company × NOIAT of the target company – interest-bearing debt – minority interests) × (1 – discount rate for lack of liquidity) × (1 + premium rate of control) + surplus assets + net non-operating assets

Of which:

EV/NOIAT of the target company = weighted average of the corrected EV/NOIAT of comparable companies

Corrected EV/NOIAT of comparable companies = EV/NOIAT of comparable companies × EV/NOIAT correction coefficient of comparable companies

EV/NOIAT correction coefficient of comparable companies = adjustment coefficient for Π impact factor A_i

Determination of discount rate for lack of liquidity

As the comparable companies selected for this valuation are all listed companies, whose shares are highly liquid, whereas Zhejiang Haiyun Environmental Protection is an unlisted company, whose equity is not tradable on the stock exchange and therefore there is depreciation in value of its assets. Drawing on international quantitative research on the discount rate for lack of liquidity, this valuation used a comparison of the P/E for mergers of unlisted companies and those of listed companies to estimate the discount rate for lack of liquidity, taking into account the actual situation in China.

The basic idea of estimating the discount rate for lack of liquidity by employing the comparison of the P/E for mergers of unlisted company with those of listed companies is to collect and analyse the P/E for merger cases of unlisted companies, and then conduct a comparative analysis with the P/E of listed companies in the same period, and estimate the discount rate for lack of liquidity at the difference between the two types of P/E mentioned above.

The Independent Valuer has applied a discount rate of 31.10% for the lack of liquidity in the Zhejiang Haiyun Valuation based on its analysis and comparison of the difference in the average price-to-earning (P/E) ratios for merger and acquisition transactions of minority shareholdings in non-listed companies and listed companies during 2018 and 2020.

Valuation results of the target company

The results of evaluating as entrusted the value of all shareholders' equity of Zhejiang Haiyun Environmental Protection are calculated based on the formula. The average of the calculated value of the shareholders' equity of Zhejiang Haiyun Environmental Protection under the two valuation models is taken as the valuation results of the value of its shareholders' equity.

The specific calculation process is as follows:

No.	Item	Amount: RMB0'000	
		PB	EV/NOIAT
1	Value ratio of the appraised entity taken	1.73	13.46
2	Corresponding parameters of the appraised entity	114,376.94	30,475.71
3	Enterprise value (EV) of entire investment in the appraised entity		410,203.06
4	Interest-bearing debt of the assessed entity		140,281.08
5	Minority interests		58,842.06
6	Value of fully liquid operating equity	197,872.11	211,079.92
7	Discount rate for lack of liquidity	31.10%	31.10%
8	Value of operating equity in the appraised entity	136,333.88	145,434.06
9	Premium rate of control	7.20%	7.20%
10	Value of operating equity with control	146,149.92	155,905.31
11	Surplus assets	28,871.64	28,871.64
12	Net non-operating assets	-21,278.88	-21,278.88
13	Market value of equity (rounded)	153,700.00	163,500.00
14	Appraisal results (rounded)	158,600.00	

On the basis of the valuation assumptions disclosed in this report, the valuation results of the value of all shareholders' equity of Zhejiang Haiyun Environmental Protection using the market approach is RMB1,586,000,000.00.

Valuation conclusions

The market approach appraises the value of a business in terms of overall market performance and future expectations, objectively reflecting investors' perceptions of the market value of the business under the current market supply and demand. The asset-based approach (which can be considered as the income approach) used for Zhejiang Haiyun Environmental Protection is based on the profitability of the enterprise itself to forecast the value of the enterprise, which are complementary to each other.

The asset-based approach (which can be considered as the income approach) used for the valuation of Zhejiang Haiyun Environmental Protection is based on the expected return on assets as the value criterion, reflecting the magnitude of future profitability of the enterprise, which will usually be affected by a variety of conditions such as macroeconomy, industry policies, market environment, government's fiscal conditions and the effective use of assets. The market approach is to compare the valuation subject with listed companies in the same industry and to make appropriate corrections to the known prices and economic data of these listed companies as a reflection of the value in the current market. In view of the above, the two valuation approaches stand in different perspectives to reflect the value of an enterprise, resulting in differences in the conclusions of the two valuation approaches.

The asset-based approach (which can be considered as the income approach) is to determine the appraised value by discounting the expected future earnings of Zhejiang Haiyun Environmental Protection and its subsidiaries. Under the current multiple environmental pressures such as the COVID-19 epidemic, downward pressure on the domestic economy and fiscal deficits of some regional governments, there are uncertainties in the projection of future earnings of the company. Such uncertainties have a greater impact on the income approach as compared to the market approach. The valuation results using the market approach is based on the analysis and comparison of similar comparable companies in the mature stock market where the subject company is located. The market price of listed companies is the fair value derived from the trading of each investor at will under fair market conditions. As it appraises the value of the valuation subject based on references in the actual market, it has the advantages of direct appraisal perspective and approach, intuitive appraisal process, appraisal data directly from the market and persuasive valuation results. Its valuation results can better reflect the judgement of individual investors on the fair value of the enterprise under the current market conditions. Given the purpose of this valuation and the comparison between valuation results of the two approaches, the valuation results of the market approach can better reflect the enterprise value under the current market conditions.

Accordingly, the market approach of was finally adopted in this valuation, whose valuation results of RMB1,586,000,000.00 (RMB one thousand five hundred and eighty six million only) was taken as the appraised value of all shareholders' equity of Zhejiang Haiyun Environmental Protection.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests and short positions of the Directors, the Supervisors the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”), were as follows:

Name of Director, Supervisor and chief executive	Capacity	Type of Shares	Number of Shares held	Approximate	Approximate
				percentage of the respective type of Shares in issue (%)	percentage of the total number of Shares in issue (%)
Mr. Yu Long	Beneficial owner	Domestic Shares	10,820,000 (L)	1.30	0.91
Mr. Yu Long	Beneficial owner	H Shares	770,000 (L)	0.21	0.06
Mr. Yang Fang	Beneficial owner	Domestic Shares	1,755,000 (L)	0.21	0.15
Mr. Huang Yi	Beneficial owner	Domestic Shares	1,560,000 (L)	0.19	0.13

(L) refers to long position

Long positions in the shares and underlying shares of the associated corporation

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors, the Supervisors and the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) where were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

To the Company's best knowledge, as at the Latest Practicable Date, the following persons (other than Directors, Supervisors or the chief executive of the Company whose interests are disclosed in the section headed "Directors', Supervisors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures" above) had interests or short positions in the Shares, underlying Shares or debentures of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or had interests or short positions in 5% or more of the respective type of share capital in issue of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholder	Capacity	Type of Shares	Number of Shares	Approximate percentage of the respective type of Shares in issue (%)	Approximate percentage of the total number of Shares in issue (%)
Yunnan Province Water ¹	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Huang Yunjian ¹	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Liu Xujun ¹	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Wang Yong ¹	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
YHTH ¹	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30

Name of Shareholder	Capacity	Type of Shares	Number of Shares	Approximate percentage of the respective type of Shares in issue (%)	Approximate percentage of the total number of Shares in issue (%)
Beijing OriginWater	Beneficial owner	Domestic Shares	286,650,000 (L)	34.56	24.02
China National Petroleum Corporation ²	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Capital Company Limited ²	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Capital Limited ²	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Assets Management Co., Ltd. ²	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Ningbo Kunlun Xinyuan Equity Investment Management Partnership (Limited Partnership) ²	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Kunlun Trust Co., Ltd. ²	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Yantai Xinzhentianying Equity Investment Center (Limited Partnership) ²	Beneficial owner	Domestic Shares	124,754,169 (L)	15.04	10.46
The National Council for Social Security Fund of the PRC	Beneficial owner	H Shares	30,454,900 (L)	8.37	2.55

Name of Shareholder	Capacity	Type of Shares	Number of Shares	Approximate percentage of the respective type of Shares in issue (%)	Approximate percentage of the total number of Shares in issue (%)
Caiyun International ¹	Beneficial owner	H Shares	8,449,000 (L)	2.32	0.71
YHTH ¹	Interests in controlled corporation, interests held jointly with another person	H Shares	8,449,000 (L)	2.32	0.71

Notes:

(L) refers to long position

- (1) Yunnan Province Water is wholly owned by YHTH and is the beneficial owner of 361,487,162 Domestic Shares. Caiyun International is wholly owned by YHTH and is the beneficial owner of 8,449,000 H Shares. YHTH is deemed to be interested in all the Domestic Shares held by Yunnan Province Water and H Shares held by Caiyun International pursuant to the SFO which representing approximately 31.01% of total issued Shares. By virtue of the acting in concert agreement dated 24 July 2014 (the “**Acting in Concert Agreement**”), each of Yunnan Province Water and YHTH is deemed to be interested in all the Domestic Shares held by Huang Yunjian, Liu Xujin, Wang Yong and each of Yunnan Province Water and YHTH in aggregate pursuant to the SFO.

Huang Yunjian is the beneficial owner of 1,950,000 Domestic Shares. By virtue of the Acting in Concert Agreement entered into between Yunnan Province Water, Liu Xujun, Huang Yunjian and Wang Yong, each of Liu Xujun, Huang Yunjian and Wang Yong agreed to act in concert with Yunnan Province Water in exercising their voting rights in the Shareholders’ meeting of the Company. Mr. Huang is deemed to be interested in all the Domestic Shares held by Yunnan Province Water, Liu Xujun, Wang Yong and Mr. Huang himself in aggregate pursuant to the SFO.

Liu Xujun is the beneficial owner of 195,000 Domestic Shares. By virtue of the Acting in Concert Agreement, he is deemed to be interested in all the Domestic Shares held by Yunnan Province Water, Huang Yunjian, Wang Yong and himself in aggregate pursuant to the SFO.

Wang Yong is the beneficial owner of 585,000 Domestic Shares. By virtue of the Acting in Concert Agreement, he is deemed to be interested in all the Domestic Shares held by Yunnan Province Water, Huang Yunjian, Liu Xujun and himself in aggregate pursuant to the SFO.

- (2) Ningbo Kunlun Xinyuan Equity Investment Management Partnership (Limited Partnership) (“**Ningbo Kunlun Xinyuan**”) is a general partner of Yantai Xinzhen Tianying Equity Investment Center (Limited Partnership) (“**XinZhen Tianying**”), which holds 3.85% equity interests in Xinzhen Tianying, the beneficial owner of 124,754,169 Domestic Shares; Ningbo Kunlun Xinyuan is owned as to 99% by Kunlun Trust Co., Ltd.; Kunlun Trust Co., Ltd. is owned as to 82.18% by CNPC Assets Management Co., Ltd., which in turn is wholly owned by CNPC Capital Limited; CNPC Capital Limited is wholly owned by CNPC Capital Company Limited, which in turn is owned as to 77.35% by China National Petroleum Corporation.

Save as disclosed above, to the best knowledge of the Company, as at the Latest Practicable Date, no person (other than the Directors, Supervisors and chief executive of the Company) had informed the Company that he had interests or short positions in the Shares or underlying Shares of equity derivatives of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or held any interests or short positions in 5% or more of the respective types of capital in issue of the Company.

4. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Group or associated companies which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective close associates had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

6. DIRECTORS’ INTERESTS IN THE GROUP’S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Group since 31 December 2020, the date to which the latest published audited consolidated financial statements of the Group were made up, and there is no contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Group.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

8. MATERIAL CONTRACTS

The following material contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the Latest Practicable Date:

- (a) the capital injection agreement and its supplemental agreement dated 31 December 2020 entered into among (i) the Company; (ii) Yunnan Asset Management Co., Ltd.* (雲南省資產管理有限公司) (“**YAM**”); and (iii) Yunnan Yunshui Construction & Engineering Co., Ltd.* (雲南雲水建設工程有限公司) (“**Yunshui Construction**”) in respect of the subscription of equity interests in Yunshui Construction by YAM at the consideration of RMB500,000,000;
- (b) the shortfall payment and transfer of trust interests agreement dated 11 September 2020 entered into between Yunnan Investment Holding Group Co., Ltd.* (雲南省投資控股集團有限公司) (“**YPIG**”) and Yunnan International Trust Co., Ltd.* (雲南國際信託有限公司) in respect of the guarantee provided by YPIG in favour of Yunnan International Trust Co., Ltd.* (雲南國際信託有限公司) (the “**Lender**”);
- (c) the equity pledge agreement dated 11 December 2020 entered into between the Company and YPIG in respect of the pledge of the entire equity interest in Yunnan Solid Waste Treatment Investment Co., Ltd.* (雲南固廢投資有限公司) by the Company to YPIG;
- (d) the fee agreement dated 11 December 2020 entered into between the Company and YPIG in respect of the annual guarantee fee payable by the Company to YPIG calculated at 1.0% per annum based on the actual drawdown amount of the loan under the entrusted loan contract entered into between the Company and the Lender dated 11 September 2020 for the relevant year;
- (e) the finance lease agreement dated 9 December 2020 between ABC Financial Leasing Co., Ltd.* (農銀金融租賃有限公司) (“**ABC Financial Leasing**”) and Kaifa Xinquan Water (Tiantai) Co., Ltd.* (凱發新泉水務(天台)有限公司) (“**Kaifa Xinquan (Tiantai)**”), pursuant to which Kaifa Xinquan (Tiantai) agreed to sell certain sewer pipe networks to ABC Financial Leasing at the consideration of RMB110,000,000 and ABC Financial Leasing agreed to leaseback the same to Kaifa Xinquan (Tiantai) for the lease term of eight years;
- (f) the finance lease agreement dated 9 December 2020 between Bank of Communications Financial Leasing Co., Ltd. (“**BoCom Leasing**”) and Dali Water Investment Co. Ltd.* (大理水務產業投資有限公司) (“**Dali Water**”), pursuant to which Dali Water agreed to sell the water supply and drainage pipeline network facilities in Dali City to BoCom Leasing at the consideration of RMB60,000,000 and BoCom Leasing agreed to leaseback the same to Dali Water for the lease term of 60 months;
- (g) the finance lease agreement dated 9 December 2020 between CITIC Financial Leasing Co., Ltd.* (中信金融租賃有限公司) (“**CITIC Financial Leasing**”) and Xinjiang Qinggeda Yunshui Environmental Industry Investment and Development Co., Ltd.* (新疆青格達雲水環保投資有限公司) (“**Qinggeda Yunshui**”), pursuant to which Qinggeda Yunshui agreed to sell the equipment and facilities of Longhe Wastewater Treatment Plant* (龍河污水處理廠) CITIC Financial Leasing at the consideration of RMB90,000,000 and CITIC Financial Leasing agreed to lease back the same to Qinggeda Yunshui for the lease term of five years;

- (h) the finance lease agreement dated 20 February 2020 between Sanming Jinliya Environmental Protection Technological Investment Co., Ltd.* (三門市金利亞環保科技投資有限公司) (“**Sanming Jinliya**”) and ABC Financial Leasing, pursuant to which Sanming Jinliya agreed to sell certain power generation facilities and equipment to ABC Financial Leasing at the consideration of RMB300,000,000 and ABC Financial Leasing agreed to lease back the same to Sanming Jinliya for the lease term of eight years;
- (i) the finance lease agreement dated 20 September 2020 between HLJ Yunshui Environmental Technology Services Co., Ltd (“**HLJ Yunshui**”) and BoCom Leasing, pursuant to which HLJ Yunshui agreed to sell the engineering equipment and facilities of the hazardous waste centralised disposal site to BoCom Leasing at the consideration of RMB98,000,000 and BoCom Leasing agreed to lease back the same to HLJ Yunshui for the lease term of 60 months;
- (j) the finance lease agreement dated 24 April 2020 between Kelamayi Haorui Water Co., Ltd.* (克拉瑪依浩瑞水務有限公司) (“**Kelamayi Haorui**”) and CITIC Financial Leasing, pursuant to which Kelamayi Haorui agreed to sell the equipment and facilities of Kelamayi Wuwu Industrial Park wastewater treatment plant to CITIC Financial Leasing at the consideration of RMB170,000,000 and CITIC Financial Leasing agreed to lease back the same to Kelamayi Haorui for the lease term of five years;
- (k) the finance lease agreement dated 27 November 2020 between Dali Water and BoCom Leasing, pursuant to which Dali Water agreed to sell water supply and drainage pipeline network facilities in Dali City to BoCom Leasing at the consideration of RMB140,000,000 and BoCom Leasing agreed to lease back the same to Dali Water for the lease term of 60 months;
- (l) the capital injection agreement dated 17 June 2020 entered into among (i) the Company; (ii) YAM; and (iii) Yunshui Construction in respect of the subscription of equity interests in Yunshui Construction by YAM at the consideration of RMB300,000,000;
- (m) the finance lease agreement dated 12 June 2020 between Qinggeda Yunshui and CITIC Financial Leasing, pursuant to which Qinggeda Yunshui agreed to sell equipment and facilities of Wutong Wastewater Treatment Plant to CITIC Financial Leasing at the consideration of RMB210,000,000 and CITIC Financial Leasing agreed to lease back the same to Qinggeda Yunshui for the lease term of five years;
- (n) the sale and purchase agreement dated 29 September 2020 entered into between the Company and Fuzhou Dingrong Environmental Protection Technology Co., Ltd.* (福州市鼎榕環保科技有限公司) (“**Dingrong Environmental Protection**”) in relation to the disposal of 40% equity interest in Fujian Dongfei Environment Group Co., Ltd.* (福建東飛環境集團有限公司) by the Company to Dingrong Environmental Protection for the consideration of RMB375,200,000;
- (o) the supplemental agreement dated 29 September 2020 entered into between the Company and Dingrong Environmental Protection in accordance with the terms of the Equity Transaction Agreement, for the purpose of further specifying certain terms under the Equity Transaction Agreement;
- (p) the joint venture agreement dated 21 April 2020 entered into among the Company, Central and Southern China Municipal Engineering Design and Research Institute Co., Ltd.* (中國市政工程中南設計研究總院有限公司) and Jiangxi the Third Construction Co., Ltd.* (江西建工第三建築有限責任公司) in relation to the establishment of Yingde Yunshui Water Co., Ltd.* (英德雲水水務有限公司) in Yingde City, Guangdong Province, the PRC, with a total investment amount of RMB219,398,000;

- (q) the agreement on transfer of property share in Jinan Yuanchuang Yunteng Equity Investment Partnership (Limited Partnership) dated 7 April 2020 entered into between the Company and Eastmoney Securities Co., Ltd.* (東方財富證券股份有限公司) in relation to the Company's acquisition of the 79.29% of the property share held by Eastmoney Securities Co., Ltd.* (東方財富證券股份有限公司) in Jinan Yuanchuang Yunteng Equity Investment Partnership (Limited Partnership) at the consideration of RMB290,000,000;
- (r) the shareholders agreement dated 23 October 2019 entered into among the Company, Guizhou Tongren City Development and Investment Group Co., Ltd.* (貴州省銅仁市城市開發投資集團有限公司), Guizhou Province Shiqian County Water Investment Co., Ltd.* (貴州省石阡縣水務投資有限責任公司), Guizhou Province Yinjiang Autonomous County Yinfeng Municipal Urban and Rural Construction Investment Group Co., Ltd.* (貴州省印江自治縣銀豐城鄉建設投資集團有限公司) and China Urban Construction Design & Research Institute in relation to the establishment of Tongren City Yunshui Environment Co., Ltd.* (銅仁市雲水環境有限公司) in Tongren City, Guizhou Province, the PRC, with a total investment amount of RMB337,100,000;
- (s) the equity transfer agreement dated 30 September 2019 entered into among the Company, Beijing OriginWater and Mr. Lin Kehong in relation to the acquisition of 100% equity interest in Liaocheng Chuanglian Environmental Technology Co., Ltd.* (聊城市創聯環保科技有限公司) by the Company from Beijing OriginWater and Mr. Lin Kehong at the consideration of RMB40,300,000;
- (t) the shareholders' agreement dated 16 September 2019 entered into among the Company, Longhai City Construction Investment and Development Co., Ltd.* (龍海市城市建設投資開發有限公司), YCIH No. 1 Water Resources and Hydropower Construction Co., Ltd.* (雲南建投第一水利水電建設有限公司) and Zhongdu Engineering Design Co., Ltd.* (中都工程設計有限公司) in relation to the establishment of Longhai Yunshui Environmental Protection Engineering Co., Ltd.* (龍海市雲水環保工程有限公司) in Longhai City, Fujian Province, the PRC, with a total investment amount of RMB300,000,000;
- (u) the joint venture agreement dated 16 August 2019 entered into between the Company and Shuangcheng Tongda Water Supply and Drainage Co., Ltd.* (雙城市通達供排水有限公司) in relation to the establishment of Harbin Yunshui Water Co., Ltd.* (哈爾濱雲水水務有限公司) in Shuangcheng District, Harbin City, Heilongjiang Province, the PRC, with a total investment amount of RMB202,102,650;
- (v) the equity pledge agreement dated 24 July 2019 entered into among the Company, Dali State-owned Asset Operation Co., Ltd.* (大理市國有資產經營有限責任公司), Dali Provincial Resort State-owned Assets Operation Co., Ltd.* (大理省級旅遊度假區國有資產經營有限責任公司) and Dali Dongcheng District Municipal Engineering Co., Ltd.* (大理市東城區市政工程有限責任公司) in relation to the pledge of the 40.27% equity interest in Dali Water Investment Co., Ltd.* (大理水務產業投資有限公司) by the Company in favour of Dali State-owned Asset Operation Co., Ltd.* (大理市國有資產經營有限責任公司), Dali Provincial Resort State-owned Assets Operation Co., Ltd.* (大理省級旅遊度假區國有資產經營有限責任公司) and Dali Dongcheng District Municipal Engineering Co., Ltd.* (大理市東城區市政工程有限責任公司).

9. EXPERT AND CONSENT

The following sets out the qualification of the expert which has given its opinion and/or advice as contained in this circular:

Name	Qualification
Canwin Appraisal Co., Ltd* (坤元資產評估有限公司)	a qualified PRC valuer, the Independent Valuer

As at the Latest Practicable Date, the above expert:

- (a) did not have any shareholding, direct or indirect, in any members of the Group or any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (b) did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2020 (being the date to which the latest published audited financial statements of the Group were made up); and
- (c) had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name and its letter in the form and context in which they respectively appear.

The letter and recommendation from the above expert is given as of the date of this circular for incorporation herein.

10. MISCELLANEOUS

The registered office and principal place of business in the PRC of the Company is located at 2089 Haiyuan Bei Road, Gaoxin District, Kunming, Yunnan, the PRC. The principal place of business of the Company in Hong Kong is located at Suites 3110–11, 31/F, Tower 1, The Gateway, Harbour City, 25 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong.

The company secretary of the Company is Mr. Li Bo, who is a member of the Hong Kong Institute of Certified Public Accountants and a member of the Certified Public Accountants of Australia.

The branch share registrar and transfer office of the Company is Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

The English text of this circular shall prevail over the Chinese text in case of any inconsistency, except for the English names/translations of the companies established in the PRC, relevant authorities in the PRC and other Chinese terms used in this circular which are only translations of their official Chinese names.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Suites 3110–11, 31/F, Tower 1, The Gateway, Harbour City, 25 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong for a period of 14 days from the date of this circular:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for each of the three years ended 31 December 2018, 2019 and 2020;
- (c) the Valuation Report, the summary of which is set out in Appendix II to this circular;
- (d) the Equity Acquisition and Share Issuance Agreement;
- (e) the Profit Guarantee Agreement;
- (f) the material contracts referred to in the paragraph headed “Material Contracts” in this appendix;
- (g) the circular of the Company dated 22 April 2021 in relation to the connected and major transactions relating to the parent guarantee, guarantee fee and equity pledge; and
- (h) this circular.