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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)

DISCLOSEABLE TRANSACTION AND EXEMPTED CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 51% EQUITY INTEREST IN THE TARGET COMPANY

THE DISPOSAL

References are made to the announcements of the Company dated 4 March 2021 and 28 June 2021, in relation to the Company's approval of the disposal of 51% equity interest held by the Company in the Target Company by way of public tender through YNEX. As of the date of this announcement, the process of the public tender through YNEX has been completed. Upon consultation, Yueyang Xincheng, another Shareholder of Dongting Water, did not exercise the pre-emptive rights. Therefore, Yueyang Construction and Investment was the ultimate transferee of the Potential Disposal.

The Board is pleased to announce that on 1 July 2021 (after trading hours), the Company (as the vendor) and Yueyang Construction and Investment (as the purchaser) entered into the Equity Transaction Agreement and the Supplemental Agreement to the Equity Transaction Agreement, pursuant to which, the Company has agreed to sell, and Yueyang Construction and Investment has agreed to acquire, the Sale Shares at the Consideration of RMB77,630,000.

Upon completion of the Disposal, the Company shall cease to have any interest in the Target Company and the financial results of the Target Company will not be consolidated with the results of the Group.

LISTING RULES IMPLICATIONS

Since one or more of the applicable percentage ratios in respect of the Disposal exceed(s) 5% but is/are below 25%, the Disposal will constitute a discloseable transaction of the Company and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules. Upon completion of the Disposal, the Group will cease to hold any equity interest in the Target Company which will cease to become a subsidiary of the Group.

Further, as of the date of this announcement, Yueyang Construction and Investment as the purchaser is a substantial shareholder of the Target Company, being a non-wholly owned subsidiary of the Company, and hence a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules. Accordingly, the Disposal also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As (i) Yueyang Construction and Investment is a connected person of the Company at the subsidiary level; (ii) the Board has approved the Disposal; and (iii) the independent non-executive Directors have confirmed that the Disposal is on normal commercial terms and its terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole, the Disposal is subject to the reporting and announcement requirements, and is exempt from the circular, independent financial advice and independent shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

THE DISPOSAL

References are made to the announcements of the Company dated 4 March 2021 and 28 June 2021, in relation to the Company's approval of the disposal of 51% equity interest held by the Company in the Target Company by way of public tender through YNEX. As of the date of this announcement, the process of the public tender through YNEX has been completed. Upon consultation, Yueyang Xincheng, another Shareholder of Dongting Water, did not exercise the pre-emptive rights. Therefore, Yueyang Construction and Investment was the ultimate transferee of the Potential Disposal.

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THE EQUITY TRANSACTION AGREEMENT

Date: 1 July 2021 (after trading hours)

Parties: (i) the Company (as the vendor); and
(ii) Yueyang Construction and Investment (as the purchaser)

Sale Shares

Under the Disposal, the Company has agreed to sell, and Yueyang Construction and Investment has agreed to acquire, 51% interest in the Target Company.

Consideration, Payment Terms and Basis of Determining the Consideration

The Company has entrusted YNEX to obtain the equity bidder through the way of public tender. The Minimum Consideration, being the initial bidding price, is RMB76,500,000, which was determined based on the expected return of the historical investment amount of the Company in the Target Company, which was calculated by multiplying the capital investment in the Target Company up to the date of the pre-listing disclosure with 10% annualized rate of return. The final minimum bidding price is RMB77,630,000, which was determined based on the expected return of the historical investment amount of the Company in the Target Company, which was calculated by multiplying the capital investment in the Target Company up to the date of the formal tender with 10% annualized rate of return. The Consideration is the final bidding price offered by Yueyang Construction and Investment, the purchaser, being RMB77,630,000.

The Credit and Debt Treatment Involved in the Disposal

Upon completion of the Disposal, the new shareholders of the Target Company will continue to inherit liabilities.

Tax and Fees for the Equity Transfer

Tax and fees involved in the equity transfer shall be borne by the Company and Yueyang Construction and Investment as agreed or in accordance with the relevant laws of the PRC, or by the Company and Yueyang Construction and Investment in case of no specified agreement or requirement.

Effective Date of the Equity Transaction Agreement

According to the Equity Transaction Agreement, the Equity Transaction Agreement shall take effect from the date when it is signed and sealed by the legal representatives of both parties.

SUPPLEMENTAL AGREEMENT TO THE EQUITY TRANSACTION AGREEMENT

Date: 1 July 2021 (after trading hours)

Parties: (i) the Company (as the vendor); and

(ii) Yueyang Construction and Investment (as the purchaser)

Payment Method of the Consideration

According to the agreement:

- (i) The Company shall return the earnest money in lump sum into the account designated by Yueyang Construction and Investment within five working days from the date of entering into of the Equity Transaction Agreement.

- (ii) Yueyang Construction and Investment shall pay transaction service fee in accordance with the notice of YNEX, so as to avoid any deduction of the transaction deposit. Based on this, the transaction deposit paid by Yueyang Construction and Investment in a total amount of RMB55,000,000 shall be converted into a portion of the transaction price and be paid by YNEX to the Company.
- (iii) For the remaining full payment payable for the equity transfer in a total amount of RMB22,630,000, Yueyang Construction and Investment shall make a lump sum payment into the fund supervision account designated by YNEX within five working days from the date of entering into of the Equity Transaction Agreement.

Equity Delivery

The parties acknowledge that Yueyang Construction and Investment has the following obligations and the parties shall cooperate in handling the registration procedures for the changes in equity interests in the Target Company within seven working days after Yueyang Construction and Investment has facilitated the fulfillment of the following conditions:

- (i) The Target Company borrowed RMB2,000,000 from the Company on 18 December 2020 for repayment of the principal of bank loans. The term of the borrowing is one year, and the fund occupation rate is 4.56% per year. The borrowing and interests thereon shall be fully repaid to the Company in advance with the funds provided by Yueyang Construction and Investment or be repaid to the Company by Yueyang Construction and Investment on behalf of the Target Company. The interest accrual period is from 1 January 2021 to the date of actual repayment.
- (ii) The Target Company borrowed RMB110,000,000 from CCB Qiaodong Sub-branch on 29 December 2017, and the Company provided joint liability guarantee for the Target Company. In this regard, Yueyang Construction and Investment shall be responsible for discharging all guarantee responsibilities of the Company under the Guarantee Contract signed by the Company and CCB Qiaodong Sub-branch and handling relevant discharge procedures.
- (iii) Yueyang Construction and Investment has paid the corresponding transaction deposit for the equity transfer as agreed.

Yueyang Construction and Investment shall enjoy and bear the profit or loss of the Target Company in the period from 31 December 2020 to the completion of the business registration procedures for changes in shareholders of the Target Company.

The Company shall hand over all materials, seals, etc. related to the Target Company including all financial information, information on facilities and equipment, engineering information and business information of the Target Company to Yueyang Construction and Investment on the date upon which Yueyang Construction and Investment completes full payment for the equity transfer, and be responsible for completing the work handover with the relevant staff of Yueyang Construction and Investment.

DISPUTE RESOLUTION

All disputes arising out of or in connection with the performance of the Supplemental Agreement to the Equity Transaction Agreement shall be settled by the parties through friendly negotiation; if such negotiation fails, either party shall have the right to apply to the China International Economic and Trade Arbitration Commission for arbitration, the place of which shall be in Beijing. The losing party shall bear all costs of arbitration and attorney's fees incurred by the other party in pursuing its rights and interests.

INFORMATION OF THE COUNTERPARTY

Yueyang Construction and Investment was incorporated in the PRC in September 2012, and is primarily engaged in urban infrastructure investment and construction, project development and operation, primary land development and real estate development, management and operation of State-owned assets mandated by the Yueyang Municipal Government and franchises in cities, foreign investment and capital operation and other businesses, and other operations authorised by the Yueyang Municipal Government. The controlling shareholder and ultimate beneficial owner is the Yueyang Municipal People's Government. As of the date of this announcement, the Target Company was held as to 34% by Yueyang Construction and Investment and, at the same time, held as to 15% by the Yueyang Municipal People's Government, the ultimate beneficial owner of Yueyang Construction and Investment, through Yueyang Xincheng.

INFORMATION OF 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.

INFORMATION OF THE TARGET COMPANY

The Target Company was incorporated in the PRC in November 2015 and is principally engaged in investment in water conservancy and water projects, solid waste treatment projects, air pollution control projects, environmental control projects, soil remediation projects, and design, research and development, production and sales of environmental protection equipment, purification equipment and water treatment equipment, research and development of soil remediation agents, etc. As of the date of this announcement, the Target Company is held as to 51%, 34% and 15% by the Company, Yueyang Construction and Investment and Yueyang Xincheng, respectively.

FINANCIAL INFORMATION OF THE TARGET COMPANY

Set out below is the key audited financial information of the Target Company 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 RMB (audited)	31 December 2020 RMB (audited)
Income	nil	nil
Profit before tax	nil	nil
Profit after tax	nil	nil

The audited total assets of the Target Company as at 31 December 2020 amounted to RMB192,517,422.04 and the equity of owners amounted to RMB98,905,877.16. The appraised value of the total assets and the entire equity interest of the Target Company as at 31 December 2020 as appraised by the PRC Valuer amounted to RMB210,997,300 and RMB112,449,000, respectively.

REASONS FOR AND BENEFITS OF THE DISPOSAL AND USE OF PROCEEDS

Based on the strategic development and the internal management needs of the Company, the Company decides to proceed the Disposal.

The Target Company was joint venture established by the Company together with Yueyang Construction and Investment and Yueyang Xincheng on 6 November 2015, with a registered capital of RMB500,000,000, in which, the Company holds 51% equity interest, with a paid-in capital of RMB51,000,000; Yueyang Construction and Investment holds 34% equity interest, with a paid-in capital of RMB34,000,000; Yueyang Xincheng holds 15% equity interest, with a paid-in capital of RMB15,000,000. The cost price of the Sale Shares is RMB51,000,000 and the Consideration of the Disposal is RMB77,630,000, representing a premium of approximately RMB26,630,000 over the cost price of the Sale Shares.

The Directors (including independent non-executive Directors) are of the view that the Disposal and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable and in the interest of the Company and the Shareholders as a whole and that the Disposal is not expected to affect the Company's daily operations. Save as disclosed in this announcement, none of the other Directors has any material interest in the Disposal and the transactions contemplated thereunder, and hence no other Director is required to abstain from voting on such resolutions of the Board.

Proceeds from the Disposal will be used to replenish the Group's working capital.

FINANCIAL EFFECT OF THE DISPOSAL

As of the date of this announcement, the Target Company has been accounted for as a subsidiary, and its financial results, assets and liabilities have been consolidated in the accounts of the Group. Following the completion of the Disposal, the Target Company will cease to be a subsidiary of the Company and the financial results of the Target Company will not be consolidated with the results of the Group.

Based on the initial investment cost, being the paid-in capital contribution by the Company of the Sale Shares of approximately RMB51,000,000 and the Consideration of the Disposal, it is estimated that the Group will record gains of approximately RMB26,630,000 from the Disposal.

Please note that the actual gains recorded by the Group from the Disposal will be subject to the target book value accounted for in the financial statements of the Group upon the completion of the Disposal, and may therefore be different from the above amount.

LISTING RULES IMPLICATIONS

Since one or more of the applicable percentage ratios in respect of the Disposal exceed(s) 5% but is/are below 25%, the Disposal will constitute a discloseable transaction of the Company and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

Further, as of the date of this announcement, Yueyang Construction and Investment as the purchaser is a substantial shareholder of the Target Company, being a non-wholly owned subsidiary of the Company, and hence a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules. Accordingly, the Disposal also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As (i) Yueyang Construction and Investment is a connected person of the Company at the subsidiary level; (ii) the Board has approved the Disposal; and (iii) the independent non-executive Directors have confirmed that the Disposal is on normal commercial terms and its terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole, the Disposal is subject to the reporting and announcement requirements, and is exempt from the circular, independent financial advice and independent shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

DEFINITIONS

Unless the context otherwise requires, the following expressions shall have the following meanings in this announcement:

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| “Articles of Association” | the articles of association of the Company; |
| “Board” | the board of directors of the Company; |

“CCB Qiaodong Sub-branch”	Yueyang Qiaodong Sub-branch of China Construction Bank;
“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, whose H Shares are listed on the Main Board of the Stock Exchange (stock code: 6839.HK);
“Consideration”	the consideration in the sum of RMB77,630,000 (payment for the equity transfer) payable by Yueyang Construction and Investment to the Company in relation to the Disposal;
“Director(s)”	the director(s) of the Company;
“Disposal”	the disposal of the Sale Shares by the Company to Yueyang Construction and Investment in accordance with the terms and conditions of the Equity Transaction Agreement and the Supplemental Agreement to the Equity Transaction Agreement;
“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;
“Earnest Money”	the amount of RMB7,500,000 paid by Yueyang Construction and Investment to the Company in order to reflect Yueyang Construction and Investment’s sincerity in acquiring the subject equity interest;
“Equity Transaction Agreement”	the sale and purchase agreement dated 1 July 2021 entered into between the Company and Yueyang Construction and Investment in relation to the Disposal;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“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;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

“PRC”	the People’s Republic of China, for the purpose of this announcement only, excluding Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“RMB”	Renminbi, the lawful currency of PRC;
“PRC Valuer”	Hunan Hengli Asset Evaluation Co., Ltd.* (湖南恒立資產評估有限公司), an independent PRC asset appraisal company;
“Sale Shares”	51% interest in the Target Company legally and beneficially owned by the Company as of the date of this announcement;
“Share(s)”	the Domestic Shares and/or H Shares;
“Shareholder(s)”	the holder(s) of Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Supplemental Agreement to the Equity Transaction Agreement”	the supplemental agreement dated 1 July 2021 entered into between the Company and Yueyang Construction and Investment in accordance with the terms of the Equity Transaction Agreement, for the purpose of further specifying certain terms under the Equity Transaction Agreement;
“Target Company”	Yueyang the Target Company Investment Co., Ltd.* (岳陽市洞庭水務投資有限公司), a company incorporated in the PRC with limited liability and is owned as to 51% by the Company as of the date of this announcement;
“YNEX”	Yunnan Equity Exchange Co., Ltd.* (雲南產權交易所有限公司), an institution authorised by the Yunnan Provincial State-owned Assets Supervision and Administration Commission to transact assets and equity of State-owned enterprises under the Yunnan Provincial Government;
“Yueyang Construction and Investment”	Yueyang Construction and Investment Group Co., Ltd.* (岳陽市城市建設投資集團有限公司), a company incorporated in the PRC with limited liability and the purchaser under the Equity Transaction Agreement and the Supplemental Agreement to the Equity Transaction Agreement;

“Yueyang Xincheng”

Yueyang Dongting Xincheng Investment, Construction and Development Co., Ltd.* (岳陽市洞庭新城投資建設開發有限公司), a company incorporated in the PRC with limited liability and mainly engaged in construction of urban infrastructures, land development and comprehensive environmental control; and

“%”

per cent.

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

Kunming, the PRC
2 July 2021

As at the date of this announcement, the executive Directors are Ms. Li Bo (Chairperson), Mr. Yu Long (Vice-chairman) and Ms. Ling Hui, the non-executive Directors are Mr. Dai Richeng, Mr. Chen Yong and Mr. Liu Hui, and the independent non-executive Directors are Mr. Liu Shuen Kong, Mr. Zhou Beihai and Mr. Zhong Wei.

* For identification purposes only