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If you are in any doubt about this circular or as to the action to be taken, you should consult your licensed securities dealer or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Yunnan Water Investment Co., Limited***, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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
DISPOSAL OF INTEREST IN SUBSIDIARY**

* *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:

“Articles of Association”	the articles of association of the Company
“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
“Closely Allied Group”	the closely allied group of Shareholders comprising (i) Green Environmental Protection; and (ii) Beijing OriginWater, which collectively holds 645,407,162 Shares, representing approximately 54.09% 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)
“Consideration”	the consideration in the sum of RMB80,589,416 payable by the Purchaser to the Company in relation to the Disposal
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Disposal Interests by the Company to the Purchaser in accordance with the terms and conditions of the Equity Transaction Agreement
“Disposal Interests”	65% equity interest in Lizhou Water held by 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 Transaction Agreement”	the sale and purchase agreement dated 14 June 2024 entered into between the Company and the Purchaser in relation to the Disposal

DEFINITIONS

“Green Environmental Protection”	Yunnan Green Environmental Protection Industry Group Co., Ltd.* (雲南省綠色環保產業集團有限公司) (formerly known as Yunnan 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, the Company’s controlling shareholder
“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
“Independent Third Party(ies)”	third party(ies) who are independent of and are not connected with the Company and its connected persons (as defined in the Listing Rules)
“Independent Valuer”	Beijing Yachao Assets Valuation Co., Ltd. (北京亞超資產評估有限公司), an independent PRC valuer
“Latest Practicable Date”	23 July 2024
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Lizhou Water”	Hunan Lizhou Water Co., Ltd.* (湖南澧州水務有限公司), a company incorporated in the PRC with limited liability
“PRC” or “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
“Public Tender”	the public tender for the Disposal through YNEX
“Purchaser”	Li County State-owned Asset Operation and Management Centre* (澧縣國有資產經營管理中心), a limited liability company incorporated in the PRC and the purchaser under the Equity Transaction Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the Domestic Shares and/or H Shares

DEFINITIONS

“Shareholder(s)”	the holder(s) of Share(s)
“Supervisor(s)”	supervisor(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Valuation Reference Date”	30 April 2023, being the reference date of the Valuation Report
“Valuation Report”	the valuation report of the Disposal Interests dated 8 April 2024 issued by the Independent Valuer
“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 and is the sole shareholder of Green Environmental Protection, the Company’s controlling shareholder
“YNEX”	Yunnan Equity Exchange, an institution authorized by Yunnan State-owned Assets Supervision and Administration Commission to conduct asset and equity transactions of state-owned enterprises under the jurisdiction of People’s Government of Yunnan Province
“%”	per cent

* For identification purposes only

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. Zheng Guangfeng (*Vice Chairman, General Manager*)
Mr. Liu Hui
Mr. Zhou Zhimi

Non-executive Directors:

Mr. Mei Wei (*Chairman*)
Mr. Dai Richeng
Mr. Chen Yong

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

26 July 2024

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION DISPOSAL OF INTEREST IN SUBSIDIARY

INTRODUCTION

Reference is made to the announcements of the Company dated 27 March 2024, 24 June 2024 and 16 July 2024 in relation to the Disposal.

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

LETTER FROM THE BOARD

A. THE DISPOSAL

On 14 June 2024 (after trading hours), the Company (as vendor) and the Purchaser (as purchaser) entered into the Equity Transaction Agreement, pursuant to which the Company agreed to sell and the Purchaser agreed to acquire 65% equity interest in Lizhou Water, at a consideration of approximately RMB80,589,416. Upon completion of the Disposal, the Company will cease to have any equity interests in Lizhou Water.

The principal terms of the Equity Transaction Agreement are summarized as follows:

EQUITY TRANSACTION AGREEMENT

Date: 14 June 2024 (after trading hours)

Parties: (i) the Company (as vendor); and
(ii) the Purchaser (as purchaser)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner are Independent Third Parties.

Disposal Interest

Pursuant to the Equity Transaction Agreement, the Vendor has agreed to sell, and the Purchaser has agreed to acquire, 65% interest in Lizhou Water.

Consideration, Payment Terms and Basis of Determining the Consideration

The Vendor has entrusted YNEX to obtain the equity bidder by way of public tender, and the method of agreement transfer is adopted. The consideration of the Disposal is approximately RMB80,589,416, which was determined with reference to the appraised value of the Disposal Interests as at 30 April 2023 by an independent PRC valuer using the asset-based approach.

The Valuation Report was prepared for the purpose of the Public Tender in compliance with the relevant PRC laws and regulations governing the transactions of State-owned assets. After selection of the Valuation Reference Date (i.e. 30 April 2023), the Independent Valuer had to conduct procedures including on-site investigation, information collection, and analysis and assessment to prepare the draft Valuation Report, which was then provided to the Company for its internal approval process before submission to the responsible State-owned assets administration department for appraisal filing. The responsible State-owned assets administration department reviewed the appraisal filing of the draft Valuation Report in accordance with the regulatory prescribed procedures including independent review by five asset appraisal experts. The Company and the Independent Valuer then responded to the review opinions of the aforesaid asset appraisal experts. After all the aforesaid asset appraisal experts were satisfied with the responses, the responsible State-owned assets administration department approved the appraisal filing of the draft Valuation Report. The Independent Valuer thereafter issued the Valuation Report (dated 8 April 2024) for the Public Tender with the appraised value of the Valuation Report determining the minimum consideration for the Disposal.

LETTER FROM THE BOARD

The Independent Valuer has adopted the asset-based approach in the valuation of the Disposal Interests (i.e. 65% equity interest in Lizhou Water). One of the major assets of Lizhou Water is the franchise rights of the existing and new water supply projects in the urban regions of Li County. The Independent Valuer has adopted the income approach in the valuation of the aforesaid franchise rights as part of its valuation of the Disposal Interests. For details of the appraised value of the Disposal Interests including the principal assumptions and inputs, please refer to the extracts of the Valuation Report as contained in Appendix II to this circular. As advised by the Independent Valuer, the Directors consider that there has been no material fluctuations in the parameters, in particular the consolidated water price, of the Valuation Report and the market condition from the Valuation Reference Date up to the Latest Practicable Date. Furthermore, the appraisal value only determined the minimum consideration of the Disposal in the Public Tender while the consideration of the Disposal was determined through the Public Tender based on the final bidding price of the Public Tender (which shall not be less than the minimum consideration). Since the Purchaser was the only qualified bidder in the Public Tender, the consideration for the Disposal was finally determined at the minimum consideration and hence equivalent to the appraised value of the Disposal Interests in the Valuation Report. In view of the above, the Directors consider that the appraised value of the Valuation Report is appropriate in determining the consideration of the Disposal.

The Independent Valuer has mentioned a number of specific matters in relation to the Valuation, details of which are set out at pages II-12 to II-19 of the Summary of Valuation Report in Appendix II to this circular. In relation to (i) incomplete or defective title documents, it is common in a TOT (Transfer — Operate — Transfer) project that the project company (i.e. Lizhou Water) which holds the franchise rights and actually uses the project assets (i.e. lands and buildings) for operation are different from the registered title holder stated in the relevant title certificates (i.e. Hunan Lixian Water Supply Company (湖南省澧縣自來水公司) as mentioned in the Valuation Report, which is government platform entity for holding the project assets). In respect of the lands and buildings without obtaining title certificates, the Directors understand that the relevant governmental authority is aware of the situation and upon expiry of the franchise period, the project assets need to be handed over to the government. Furthermore, the Purchaser has full knowledge of the aforesaid situations regarding the project assets when entering into the Equity Transaction Agreement. Therefore, the Directors believe that the aforesaid situations regarding the project assets will not lead to any potential adverse impact on the Disposal. In relation to (ii) the assessed enterprise's business being under receivership and its 2023 leasing agreements were entered by Li County Water Supply Co. Ltd., the received enterprise; and (iii) the difference in inventory amount, given that the amounts involved were not material (being RMB250,500 for the relevant leasing agreements and RMB351,600 for the relevant discrepancy in relevant carrying amount of inventory, and the fact that the Purchaser has full knowledge of the aforesaid specific matters mentioned in the Valuation Report when entering into the Equity Transaction Agreement, the Directors believe that the aforesaid situations will not lead to any potential adverse impact on the Disposal.

Payment Method of the Consideration

The Purchaser shall:

- (i) pay RMB30,000,000 of the consideration to the designated escrow account of YNEX within five working days of signing the Equity Transaction Agreement; and

LETTER FROM THE BOARD

- (ii) pay the remaining RMB50,589,416 of the consideration to the designated bank account of YNEX within 30 workings days of signing the Equity Transaction Agreement.

Equity Transfer and Registration

The Company shall assist the Purchaser to complete the equity transaction procedures within 20 business days after the Purchaser's payment of consideration.

Effective Date of the Equity Transaction Agreement

The Equity Transaction Agreement shall be effective from the date on which the Company has obtained approval from its relevant decision-making body and the State-Owned Assets Administration Department. As at the Latest Practicable Date, the Company has obtained the respective approvals from its Shareholders and the State-Owned Assets Administration.

Completion of the Disposal

Completion of the Disposal is conditional on the obtaining and completion of all necessary authorization, approval and internal company decision-making procedures (including but not limited to the Shareholders' approval). As at the Latest Practicable Date, all the conditions for the Disposal pursuant to the Equity Transaction Agreement have been fulfilled.

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 PURCHASER

The Purchaser is a constituent department of the Lixian People's Government in the PRC. The Purchaser is principally engaged in the management of state-owned assets.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

INFORMATION OF LIZHOU WATER

Lizhou Water is a company incorporated in the PRC with limited liability and is owned as to 65% by the Company and 35% by the Purchaser. Lizhou Water is principally engaged in the production and supply of tap water and the construction work business (projects subject to approval as required by the relevant laws shall be conducted upon approval by the relevant authorities).

LETTER FROM THE BOARD

The financial information of Lizhou Water for the two years ended 31 December 2022 and 2023 are set out as follows:

	For the year ended	
	31 December	
	2022	2023
	(audited)	(audited)
	(RMB)	(RMB)
Operating revenue	52,821,784	15,067,535
Profit/(loss) before tax	9,819,421	(4,821,063)
Profit/(loss) after tax	7,117,456	(1,316,059)
Total assets	151,610,107	164,168,978
Total liabilities	30,370,439	33,456,031
Net assets	121,239,668	130,712,947

FINANCIAL EFFECT OF THE DISPOSAL AND USE OF PROCEEDS

Upon completion of the Disposal, the Company will cease to have any equity interest in Lizhou Water.

Upon completion of the Disposal, the assets and liabilities of Lizhou Water amounted to RMB164,168,978 and RMB33,456,031 respectively were derecognized from the consolidated financial statements of the Group based on the financial information of Lizhou Water as at 31 December 2023. The Group is expected to record an unaudited loss on the Disposal of approximately RMB4,742,634. Such unaudited loss is estimated based on gross proceeds from the Disposal of approximately RMB80,589,416 less the net asset value of the Disposal Interests (65% of the net assets of Lizhou Water) of approximately RMB84,963,416 as at 31 December 2023, and after deducting the expenses directly attributable to the Disposal in aggregate of approximately RMB368,634.

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

The net proceeds from the Disposal, after deducting the expenses directly attributable thereto, will amount to approximately RMB80,220,782, of which (i) 60% will be allocated for repayment of debts; (ii) 25% will be allocated for staff costs; and (iii) 15% will be allocated for procurement of project equipment and materials.

REASONS FOR AND BENEFITS OF THE DISPOSAL

Based on the strategic development and the internal management needs of the Company, the Company has decided to proceed with the Disposal. The Directors believe that the Disposal will alleviate the ongoing financial difficulties of the Group and lower the debt level and asset-liability ratio of the Company.

LETTER FROM THE BOARD

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.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Disposal exceeds 25% but is less than 75%, the Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

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 Disposal 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 Disposal.

Pursuant to Rule 14.44 of the Listing Rules, Shareholders' approval of the Disposal 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 Disposal; and (2) the written Shareholders' approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% of the voting rights at that general meeting to approve the Disposal.

Written Shareholders' approval for the Disposal 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 (Note 1)
<i>Closely Allied Group</i>			
(1) Green Environmental Protection	Domestic Shares	358,757,162	30.07%
(2) Beijing OriginWater	Domestic Shares	<u>286,650,000</u>	<u>24.02%</u>
	<i>Total:</i>	<u>645,407,162</u>	<u>54.09%</u>

Note:

1. The percentage was calculated based on 1,193,213,457 issued Shares as at the Latest Practicable Date.

LETTER FROM THE BOARD

Accordingly, no general meeting will be convened for the purposes of approving the Disposal and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

Green Environmental Protection and Beijing OriginWater are independent of and not connected with each other, nor are they parties acting in concert under the Code on Takeovers and Mergers. Nevertheless, Green Environmental Protection and Beijing OriginWater form a closely allied group under Rule 14.45 of the Listing Rules based on the followings:

- (i) Each of Green Environmental Protection and Beijing OriginWater was one of the Company's promoters and has been the Company's shareholders since its establishment in June 2011.
- (ii) Although they are not parties acting in concert within the meaning of the Code on Takeovers and Mergers, Green Environmental Protection and Beijing OriginWater have voted unanimously on all Shareholders' resolutions since the establishment of the Company (other than routine resolutions at annual general meetings).

PROFIT FORECAST REQUIREMENTS UNDER THE LISTING RULES

The valuation of the Disposal Interests (the "Valuation") were conducted by the Independent Valuer, using the asset based approach and the income approach. Accordingly, the Valuation constitutes profit forecast under Rule 14.61 of the Listing Rules. For the purpose of complying with Rule 14.60A of the Listing Rules, the details of the principal assumptions, including commercial assumptions, upon which the Valuation was based are as follows, details of which shall be referred to the Valuation Report contained in Appendix II to this circular:

Basic Assumptions

1. Transaction Assumption

The transaction assumption assumes that all the assets and liabilities to be valued are in the course of transaction and the valuation assessed by the Independent Valuer is based on a simulated market which involves the transaction conditions of the assets to be valued. The transaction assumption is one of the most fundamental assumptions for the performance of asset valuation.

2. Open Market Assumption

The open market assumption assumes that the parties to the assets transaction or the proposed assets transaction in the market have equal bargaining power and have the opportunities and time to obtain sufficient market information in order to make a rational judgment on the assets, including their functions, uses and transaction prices. The basis of open market assumption is that the assets can be traded openly in the market.

3. Asset Going-concern Assumption

The asset going-concern assumption means that the valuation method, parameters and basis shall be determined on the premise that the valued assets will be continuously used in consistence with their current functions and methods, scale, frequency and environment of application, or used on the basis of certain changes thereof.

LETTER FROM THE BOARD

4. Corporate Going-concern Assumption

The corporate going-concern assumption assumes that businesses of the valued entities will continuously operate and maintain the same operation method as it currently operates.

General Assumptions

1. From the valuation reference date, there are no significant changes in the macro environment, that is, the political, economic and social environment, etc. of the appraised entity's principal place of business and the region in which its business is conducted.
2. The information provided by the principal and the appraised entity are true, complete, reliable, with no reason to suspect that any material information has been withheld or omitted, and it is assumed that defected matters or contingent matters that may affect valuation result may not be detected even if the valuer has performed all necessary valuation procedures.
3. From the valuation reference date, there are no material adverse effects on the appraised entity caused by other force majeure factors beyond the control of human and unforeseeable factors.
4. Except those laws, rules and regulations already enacted or enacted but not yet enforced by the government of the appraised entity's principal place of business and the region in which its business is conducted on or before the valuation reference date, there are no significant changes in such laws, rules and regulations that may materially and adversely affect the appraised entity and its business operation during the income period.
5. From the valuation reference date, there are no significant changes to the currency exchange rate, interest rate, tax rate and inflation that will cause material adverse effects on the business condition of the appraised entity during the income period (considering the changes to the currency exchange rate between the valuation reference date and the valuation report date).
6. The accounting policies adopted by the appraised entity during the income forecast period are consistent, continuous and comparable with those adopted as at the valuation reference date in all material respects.
7. There will be no litigation, pledge or guarantee etc., that will cause material adverse effect to the business performance of the appraised entity during the income forecast period.
8. There are no other force majeure or unforeseen factors that have a material adverse impact on the appraised entity.

LETTER FROM THE BOARD

Specific Assumptions

1. The business scope, business model, and management model of the appraised entity can be adjusted and innovated in a timely manner in line with market and technological developments, and maintain consistency.
2. The assets and liabilities declared by the appraised entity are free from property rights disputes or other economic disputes.
3. The production and operation of the appraised entity and economic activities related to production and operation are in compliance with national laws and regulations.
4. There will be no major changes in future loan interest rates, value-added tax and additional tax rates, corporate income tax rates, etc..
5. Except with evidence that there will be material change to the fixed asset investment on the valuation reference date, there will be no significant investment activities on fixed assets that will cause material adverse effects in the business operation of the appraised entity during the income forecast period, the production capacity of the entity's products will be evaluated on the valuation reference date.
6. The net profit (after taxation) and the revenue of the appraised entity will remain consistent in general, that is, there will be no material adjustment on perpetual difference and temporal difference during the income forecast period.
7. The turnover of receivables and payables shall remain consistent during the income forecast period in comparison to the settlement history, where no significant difference in default during the income forecast period in comparison to the settlement history.
8. The cash inflow and cash outflow will occur regularly during the income forecast period, and not to recognize revenue during a single point in time in a financial year.
9. The water supply concession for the county is vested in the appraised entity, the concession business will continue to operate and the appraised entity shall continue to operate for the remaining term of the concession.
10. The underlying assets of the water supply project of the appraised entity are attached to the concession and continue to be used for municipal public utilities.
11. The expected price of water is based on the "Measures for the Administration of Urban Water Supply Prices" (《城鎮供水價格管理辦法》) and the "Measures for the Supervision of Urban Water Supply Pricing Costs" (《城鎮供水定價成本監審辦法》), and the price of water can be adjusted if operating capital and operating expenses increase, to ensure a reasonable return on investment.
12. There will be no significant changes in policies related to municipal water subsidies, sewage treatment fees, collection fees, etc. during the forecast period.

LETTER FROM THE BOARD

Moore CPA Limited has been engaged by the Company to review the calculations of the discounted future cash flows upon which the Valuation was based on, which do not involve the adoption of accounting policies and the appropriateness and validity of the assumptions. The Board has reviewed and considered the Valuation including the principal assumptions upon which the Valuation was based. The Board has also considered the report from Moore CPA Limited. On the basis of the foregoing, the Board is of the opinion that the Valuation has been made after due and careful enquiry. A letter from the Board and a report from Moore CPA Limited are included in Appendix IV and Appendix III to this circular.

RECOMMENDATION

The Board considers that the terms of the Disposal 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 Disposal, the Board would have recommended the Shareholders to vote in favour of the Disposal.

ADDITIONAL INFORMATION

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

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

* *For identification purposes only*

SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the three years ended 31 December 2023 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 2021
(<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0530/2022053001087.pdf>)
- (ii) Annual report of the Company for the year ended 31 December 2022
(<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0428/2023042802761.pdf>)
- (iii) Annual report of the Company for the year ended 31 December 2023
(<https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0429/2024042900893.pdf>)

WORKING CAPITAL

The Group reported a net loss of RMB994,606,000 for the year ended 31 December 2023 and the Group's current liabilities exceeded its current assets by RMB2,197,867,881 as at 31 May 2024. As at the same date, the Group's total borrowings amounted to RMB30,874,026,917, of which current borrowings amounted to RMB1,597,104,960, while its cash and cash equivalents amounted to RMB761,976,540 only. The Group had capital commitments of approximately RMB7,273,852,604 as at 31 May 2024, which were mainly related to various concession projects and construction projects of the Group.

The above conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern. In order to mitigate the liquidity pressure, to improve its financial position, and to sustain the Group as a going concern, certain plans and measures have been and will be taken by the Group which include, but are not limited to, the following:

- (i) The Group has plans to divest certain of the Group's concession projects and construction projects. In the meantime, the Group is also actively looking for strategic investors to invest in certain existing projects of the Group so as to enhance the capital structure and reduce overall financing expenses of the Group;
- (ii) The Directors are of the view that they have the ability to manage the progress of the projects from time to time and defer the payment schedule of the borrowings in these projects, if necessary. The Group has unutilised project loan facilities from banks to provide financing of up to RMB4,577,991,000 to satisfy part of the construction cost payable and committed capital expenditure in the next twelve months from 31 December 2023. The Group has also initiated the process to obtain new project loans to fund the Group's existing and new concession projects and construction projects. The Directors believe that these unutilised facilities will continue to be available to the Group and they are confident that they will be able to obtain such project loans from banks and other financial institutions as and when needed; and
- (iii) The Group will actively obtain additional new sources of financing as and when needed.

On the basis of the successful implementation of the plans and measures described above in the foreseeable future and after assessing the Group's current and forecasted cash positions, taking into account the net proceeds of the Disposal, the Directors are of the opinion that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within 12 months from the date of this circular.

INDEBTEDNESS

As at the close of business on 31 May 2024, 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 summarized 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 31 May 2024, the Group had total outstanding borrowings of approximately RMB30,874 million, further details of which are set out below:

	As at 31 May 2024 <i>RMB'000</i>
Non-current	
Long-term bank borrowings	
— Secured	12,934,128
— Unsecured	<u>3,729,528</u>
	16,663,656
Corporate bonds and other borrowings	
— Secured	—
— Unsecured	<u>9,369,194</u>
	9,369,194
Amount due to Shareholders	
— Caiyun International	994,641
— YHTH	1,439,656
— Green Environmental Protection	<u>809,774</u>
	3,244,071

	As at 31 May 2024 RMB'000
Current	
Short-term bank borrowings	
— Secured	78,857
— Unsecured	—
	<u>78,857</u>
Current portion of long-term bank borrowings	
— Secured	88,846
— Unsecured	33,921
	122,767
Current portion of corporate bonds and other borrowings	
— Secured	—
— Unsecured	930,901
	<u>930,901</u>
Current portion of amount due to Shareholders	
— Caiyun International	74,828
— YHTH	197,711
— Green Environmental Protection	192,041
	<u>464,580</u>
Total	<u><u>30,874,026</u></u>

As at the close of business on 31 May 2024, the Group had borrowings of RMB13,102 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 RMB288 million and RMB12,552 million of the Group's borrowings were guaranteed by a PRC local government and a related party, respectively. The amount due to Shareholders of approximately RMB3,709 million of the Group are unsecured, interest-free and repayable on demand.

Lease liabilities

As at the close of business on 31 May 2024, the Group, as a lessee, had lease liabilities for the remainder of the relevant lease terms amounting to RMB50.4 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 authorized 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 31 May 2024 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 2023, 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

The Group will focus on improving its level of operations. The Group will continue to comprehensively promote the scientific budget management of operation projects, and take into account the specific situation of the project to accurately implement policies to guide the controllable operation of its projects. At the same time, the Group will further strengthen the investigation and eliminate the unstable factors and hidden dangers in the operation process, so as to achieve the collective compliance of operation projects.

In addition, the Group will continue to benchmark domestic high-quality environmental protection enterprises in terms of various indicators, establish a sound management system, improve its own management level, improve the refined management dimension of operation, reduce operating costs and increase operating profits.

The Group aims to actively improve its liability structure. The Group shall optimize its balance sheet, gradually adjust the long-term and short-term liability structure to match the loan term with the Group's business operations, clarify the main responsibility of preventing and resolving debt risks, clean up the relationship between internal and external creditor's rights and debts, formulate a debt collection plan, increase the collection efforts, strictly screen the projects being implemented, and take measures for projects with large capital investment, difficult financing, long operating cycle, difficult payment recovery, and expected losses to reduce capital outflow, reduce bad debt risk, and improve capital turnover efficiency.

Looking forward, the Group will refine its business development goals, strengthen its business development foundation, build a solid bottom line of compliance, and strive to promote the Group's high-quality sustainable development.

The following contents are extracted from the Valuation Report.

**Summary of the Asset Valuation Report
on the Value of the 65.00% Equity Interest in Hunan Lizhou Water Co., Ltd.*
Involved in the Proposed Transfer of Equity Interests by
Yunnan Water Investment Co., Limited***

Beijing Yachao Assets Valuation Co., Ltd. has accepted the engagement by Yunnan Water Investment Co., Limited* to conduct a valuation on the market value as at 30 April 2023 of the 65.00% equity interest in Hunan Lizhou Water Co., Ltd.* involved in the proposed transfer of equity interests by Yunnan Water Investment Co., Limited*, pursuant to the laws, regulations and asset valuation standards of the PRC, and by adhering to the principles of independence, objectivity and impartiality and implementing the necessary valuation procedures.

I. Valuation Purpose

The valuation purpose is to provide value reference for the 65.00% equity interest in Hunan Lizhou Water Co., Ltd.* involved in the proposed transfer of equity interests by Yunnan Water Investment Co., Limited*.

II. Valuation Subject and Valuation Scope

The valuation subject is the value of the 65.00% equity interest in Hunan Lizhou Water Co., Ltd.* and the valuation scope covers all the audited assets and liabilities reported by Hunan Lizhou Water Co., Ltd.*

III. Value Type: market value.

IV. Valuation Reference Date: 30 April 2023.

V. Valuation Methodology

(I) Basic Approaches of the Valuation

Asset valuation approaches include the market approach, the income approach, and the cost approach, as well as their derivatives. Asset valuation professionals shall analyze the suitability of the three basic approaches based on the purpose of valuation, the appraisal target, the type of value, the collected information and the applicable conditions of the valuation approaches, etc., so as to ensure selection of appropriate valuation methods in accordance with laws.

1. Asset-based Approach

Asset-based approach in the valuation of enterprises refers to the approach in which, based on the balance sheet of the appraised entity on the Valuation Reference Date, the value of identifiable assets and liabilities on and off the balance sheet shall be evaluated so as to determine the value of the appraisal target.

2. *Income Approach*

The income approach in the valuation of enterprises refers to the approach in which the expected income shall be capitalized or discounted so as to determine the value of the appraisal target. The asset valuation professionals shall fully assess applicability of the income approach based on the historical operations of the appraised entity, predictability of future income, and adequacy of collected information.

The income approach primarily consists of discounted dividend method and discounted cash flow method.

The discounted dividend method refers to the method in which the appraisal target's value is determined by discounting expected dividends, which is usually applied to evaluate value of non-controlling equity interests. Discounted cash flow method generally consists of the discounted corporate free cash flows model and the discounted equity free cash flow model. The asset valuation professionals shall select appropriate discounted cash flow model based on the appraised entity's sectors, operational modes, capital structure and development trends.

3. *Market Approach*

The market approach in the valuation of enterprises refers to the approach in which the appraisal target shall be compared with comparable listed companies or transactions so as to determine the approach for the valuation of the appraisal target. The asset valuation professionals shall fully assess suitability of the market approach based on adequacy and reliability of the operational and financial data collected on comparable companies, as well as the number of comparable companies to be collected.

The market approach primarily consists of the method of comparing with comparable listed companies and the method of comparing with comparable transactions.

The method of comparing with comparable listed companies refers to the method in which operational and financial data of comparable listed companies are collected and analyzed, and the value ratios are calculated to determine the approach for the valuation of the appraisal target based on comparative analysis of the listed company and the appraised entity.

The method of comparing with comparable transactions refers to the method in which information on trade, acquisition and merger cases of comparable companies are collected and analyzed, and the value ratios are calculated to determine the approach for the valuation of the appraisal target based on comparative analysis of the transactions and the appraised entity.

(II) Selection of Valuation Method

Analysis of Suitability of the Three Valuation Methods for the Project:

1. Analysis of Suitability of Asset-based Approach:

Considering that the assets and liabilities entrusted to be evaluated can be inspected onsite, meet the applicable conditions of valuation approaches and adequate information can be provided for valuation of such assets and liabilities, therefore, the asset-based approach was adopted for valuation of this project.

2. Analysis of Suitability of Income Approach:

The appraised entity has been established for a long time, with a stable historical business, and can provide complete historical business data. This valuation assumes that the franchise of water supply in the urban area of Li County is assigned to the appraised entity, the franchise business continues to operate, and the appraised entity continues to operate in the remaining period of the franchise. In summary, combined with the purpose of the valuation and the historical operation status of the enterprise, this valuation adopted income approach.

3. Analysis of Suitability of Market Approach:

Considering that there are not enough comparable listed companies operating in the same industry as the appraised entity in terms of water supply capacity, profitability, franchise period and asset allocation in China's capital market, and there are rare transaction cases in the same industry at the same time, and relevant disclosure is inadequate, therefore, the market approach was not applicable for this project.

In summary, according to the purpose of the valuation, this valuation adopted asset-based approach and income approach.

(III) Technical Considerations on the Selection of Valuation Approach

- *Asset-based approach*

Asset-based approach in the valuation of enterprises refers to the approach in which appropriate methods are adopted to evaluate the value of assets and liabilities to obtain the appraised value of the entire shareholders' equity.

Valuation methods for specific categories of assets and liabilities are as follows:

1. Monetary funds

The value of RMB-denominated monetary funds shall be determined based on verified book value.

2. Other credit assets

Other credit assets mainly include receivables, prepayments and other receivables. Based on in-depth investigation into and analysis of relevant transactions, aging and repayment progress, with a particular focus on major debtors' capital use and operational status, the value of such assets shall be determined according to the recoverable amount determined by the expected credit loss analysis method, the expected risk loss determined with reference to the corporate accounting policy for bad debt provisions, and the provision for bad debts assessed as zero.

3. Inventories

Inventories mainly include raw materials and turnover materials.

The value of purchased inventories with nature of short storage time, strong liquidity and steady market price shall be determined based on verified unit purchase price and amount; the value of purchased inventories with nature of long storage time, poor marketability and fluctuating market price shall be determined at the prevailing price in the public market on the Valuation Reference Date.

4. Fixed assets

All fixed assets are equipment fixed assets. Based on the appraisal purpose, the value of such assets shall be determined by replacement cost approach and market approach in accordance with the principle of continuous use, combined with the characteristics and data collection of various equipment assets to be evaluated.

The replacement cost approach refers to an approach in which the appraised value of the evaluated assets shall be measured at the total costs needed for repurchasing or building a brand-new evaluated asset under existing conditions minus the depreciation by real degradation, functional degradation and economic degradation. The basic formula of the replacement cost approach is as follows:

Appraised value = Replacement cost × newness rate

i.e. Appraised net value = Appraised original value × newness rate

The market approach is mainly used for machineries, vehicles and electronic equipment in use for a long time. The value of such assets shall be determined by comparing the similar market trading prices.

5. Construction-in-progress

The construction-in-progress specifically refers to a quality improvement project for the water supply pipeline network and water supply facilities, which is the underlying asset of the franchise, and its value is reflected in the valuation of the franchise.

6. Intangible assets

The intangible assets under this valuation were the franchise. Assets are mainly valued by the cost approach, the market approach and the income approach. The prerequisite for applying the market approach is that there are the same or similar trading cases, and the trading behavior is fair. No comparable transaction cases and transaction information could be found in this valuation, so it is not appropriate to adopt market approach for the assessed asset evaluation. The inherent characteristics of the cost approach make its results mainly affected by the current level of construction costs, and the franchise occupier generally only has the right to use the basic assets of the franchise within the period of time and the income period, but does not have ownership rights. The result of the cost approach cannot reasonably reflect the impact of the legal ownership and economic conditions of the franchise on its value, so the cost approach is not applicable for the assessed asset evaluation. Franchise has regional monopoly and heterogeneity, and its underlying basic assets are also specially planned for public utilities. The expected returns are subject to government supervision, and their value is mainly reflected in the expected returns. Since the income generated by the franchise-related asset portfolio in future years can be reasonably estimated and meets the conditions for using the income approach, the income approach is used to evaluate the franchise.

The income approach refers to a general term for various asset valuation methods that determine the value of intangible assets by estimating the future expected income of the evaluated intangible assets and converting them into present values.

The value of the franchise in the accounting of the enterprise consists of the value of the underlying assets of the PPP project. Its value is reflected in the value jointly created by the intangible asset franchise and related infrastructure fixed assets. When calculating, the contribution of fixed assets, working capital and combined labor related to the operation of the PPP project needs to be deducted from the overall income, and the remaining earnings serve as excess returns to the franchise. Since the appraised targets include related infrastructure fixed assets, the capital expenditures required for the renewal and renovation of these fixed assets need to be deducted from the contribution amount. In summary, the franchise excess income is:

Franchise excess income = earnings before interest and taxes + depreciation and amortization - capital expenditure - working capital contribution - fixed assets contribution - portfolio labor contribution

Note: Considering that the combined labor force in the industry has no high technical requirements and the degree of specialization is average, and that the combined labor force is not separately measured as an intangible asset in industry practice, the contribution of the combined labor force is not considered in the actual calculation.

According to the valuation ideas, the calculation formula of franchise value is as follows:

$$V = \sum_{t=1}^n [R_t \times (1 + r)^{-t}]$$

Wherein: V-Value of the franchise

R_t - Income of the t-th forecast period

t- Number of forecast periods 1, 2, 3, ..., n

r- Discount rate (before tax)

n- The last year of forecast period, matching the franchise term

Discount rate: According to the value connotation of the franchise, the overall return on assets can be divided into three parts: intangible assets, fixed asset, return on portfolio investment and return on working capital.

By establishing the WACC=WARA formula, the after-tax discount rate of the franchise is calculated backwards.

The weighted average capital cost (WACC) is calculated as follows:

$$WACC = Re \times [E/(E+D)] + Rd \times (1-T) \times [D/(E+D)]$$

Wherein: E-Market value of equity

D-Market value of debt

Re-Cost of equity capital

Rd-Cost of debt capital

T- Income tax rate applicable to the appraised entity

The weighted average return on capital (WARA) is calculated as follows:

WARA= after-tax return on working capital investment x (working capital/all operating assets) + after-tax discount rate of franchise x (franchise/all operating assets) + after-tax discount rate of fixed assets x (fixed assets/all operating assets)

According to the WACC=WARA equation, the formula for calculating the after-tax discount rate of franchise is:

The after-tax discount rate of franchise = [WACC-after-tax return on working capital investment x (working capital/all operating assets)- after-tax discount rate of fixed assets x (fixed assets/all operating assets)]/(franchise /all operating assets)

Theoretically, as long as the pre-tax discount rate is adjusted based on the after-tax discount rate to reflect the time and specific amount of future tax cash flows. The result of using the after-tax discount rate to discount the after-tax cash flows is the same as the result of using the pre-tax discount rate to discount the pre-tax cash flow. Therefore, in this valuation, the pre-tax discount rate of the franchise is determined based on the post-tax discount rate and the interpolation calculation of the cash flow of the same caliber.

7. Liabilities

Liabilities mainly include payable, contract liabilities, employee compensation payable, tax payable, other payables, other current liabilities and projected liabilities. The asset appraiser reviews and verifies the liabilities of the enterprise and, upon verification, the amount of liabilities actually required to be borne by the enterprise as at the Valuation Reference Date will be taken as the appraised value of the liabilities.

- *Income Approach*

The income approach in the valuation of enterprises refers to the approach in which the expected income shall be capitalized or discounted so as to determine the value of the appraisal target. The asset valuation professionals shall fully assess applicability of the income approach based on the historical operations of the appraised entity, predictability of future income, and adequacy of collected information.

The income approach primarily consists of **discounted dividend method** and **discounted cash flow method**.

The discounted dividend method refers to the method in which the appraisal target's value is determined by discounting expected dividends, which is usually applied to evaluate value of non-controlling equity interests.

Discounted cash flow method generally consists of the discounted corporate free cash flows model and the discounted equity free cash flow model. The asset valuation professionals shall select appropriate discounted cash flow model based on the appraised entity's sectors, operational modes, capital structure and development trends.

The discounted cash flow (DCF) approach has been adopted for this income approach valuation, while free cashflow of the entity has been selected. The value of the entire equity interests is obtained indirectly through the valuation of the overall value of the entity.

This valuation is based on free net cashflow of the entity for certain years in the future. The value of overall operating assets of the entity, calculated through adding up the discounted values with the adoption of an appropriate discount rate, is added to surplus assets and non-operating assets less interest-bearing liabilities in order to derive the value of the entire equity interests.

This valuation selects the discounted cash flow method, which takes the enterprise free cash flow as the quantitative indicator of the enterprise’s expected income and uses the matching weighted average capital cost (WACC) model to calculate the discount rate. The calculation formula is as follows:

E=V-D Formula 1

V=P+C1+C2-C3 Formula 2

Wherein: E-Value of the entire shareholders’ equity

V-Enterprise value

D- Appraisal value of the interest-bearing debt

P- Appraisal value of operating assets

C1- Appraisal value of surplus assets

C2- Appraisal value of non-operating assets

C3- Appraisal value of non-operating liabilities

Of which, P, the appraised value of operating assets in Formula 2, is calculated with the formula as follows:

$$P = \sum_{t=1}^n [R_t \times (1 + r)^{-t}]$$
 Formula 3

The above formula is the value calculation model with the income forecast period being finite years

In Formula 3: R_t- Free cashflow of entity of the t-th explicit forecast period

t- Number of explicit forecast periods 1, 2, 3, ..., n

r- Discount rate

n- The last year of explicit forecast period

Of which, the discount rate (the weighted average capital cost (WACC)) is calculated as follows:

$$WACC = Re \times [E / (E + D)] + Rd \times (1 - T) \times [D / (E + D)]$$

Wherein: E- Market value of equity

D- Market value of debt

Re- Cost of equity capital

Rd- Cost of debt capital

T- Income tax rate applicable to the appraised entity

Of which, the cost of equity capital is calculated according to the capital asset pricing model (CAPM).

The calculation formula is:

$$Re = Rf + (Rm - Rf) \times \beta + Rc$$

Wherein: Rf- Risk-free rate of return

β - System risk coefficient of equity

Rm- Average market rate of return

(Rm-Rf)- Market risk premium

Rc- Enterprise-specific risk adjustment coefficient

VI. Valuation Conclusion

In accordance with the Chinese asset valuation standards, all assets and liabilities included in the scope of the valuation were assessed under the principles of independence, objectivity and impartiality, and in line with generally accepted asset valuation methods. During the valuation process, the Company's asset valuation professionals conducted an asset inventory of the appraised entity, verified and reviewed the legal documents, accounting records and other relevant materials provided by the enterprise, and conducted necessary special investigations and confirmation during the period. On this basis, the asset-based approach and the income approach were used to evaluate the value of all interests of shareholders of Hunan Lizhou Water Co., Ltd.* (湖南澧州水務有限公司). The value type used in this valuation was market value.

(I) The valuation result of the asset-based approach

The book value of total assets of RMB 156,035,100, the book value of total liabilities of RMB 33,531,400 and the book value of owner's equity of RMB 122,503,700 were included in the scope of the valuation.

The appraised value of total assets of RMB 157,248,600, the appraised value of total liabilities of RMB 33,264,900 and the appraised value of all interests of shareholders of RMB 123,983,700, representing an increase of RMB1,480,000 with an appreciation rate of 1.21%, are set out in the table below:

The summary sheet of valuation result of assets

Item	Amounts in RMB0'000			
	Book Value	Appraised Value	Appreciation/Depreciation	Appreciation rate (%)
	A	B	C=B-A	D=C/A×100%
Current assets	2,262.24	2,225.28	-36.96	-1.63
Non-current assets	13,341.27	13,499.58	158.31	1.19
Fixed assets	106.46	148.70	42.24	39.68
Construction in progress	5,022.78	—	-5,022.78	-100.00
Intangible assets	8,212.03	13,350.88	5,138.85	62.58
Total assets	15,603.51	15,724.86	121.35	0.78
Current liabilities	3,326.49	3,326.49	—	—
Non-current liabilities	26.66	—	-26.66	-100.00
Total liabilities	3,353.14	3,326.49	-26.66	-0.80
Net assets				
(Owner's equity)	12,250.37	12,398.37	148.00	1.21

The analysis of reasons for changes in appraised appreciation and depreciation:

1. Current assets

The appraised value of current assets of RMB 22,252,800, representing a decrease of RMB 369,600 with a depreciation rate of 1.63%, was mainly due to the assessment of impairment of inventory- the turnover materials at the warehouse. There was a discrepancy between the inventory details provided by the appraised entity and the financial book records. As checked and verified, the valuation adopted the stock data of the Chengcong inventory management system (成聰庫存管理系統) provided by the enterprise. The differences between the inventory management system and the financial system were credited as loss in the valuation, thus resulting in a valuation impairment.

2. *Fixed assets-equipment category*

The appraised original value of fixed assets was RMB 2,187,900, the appraised net value was RMB 1,487,000, representing a decrease in appraised original value of RMB 562,500 with a depreciation rate of 20.42%, and an increase in appraised net value of RMB 422,500 with an appreciation rate of 39.68%.

Fixed assets-machinery and equipment category, the decrease in its original value was due to the higher purchase price than the market value on the Valuation Reference Date. The increase in its net value was due to the difference between the accounting depreciation life and the economic life;

Fixed assets-vehicles, the decrease in its appraised original value was mainly because that market methods for vehicles were adopted in the valuation and the market price of used vehicles was lower than its original book value. The increase in appraised net value was mainly because the market price of used vehicles was higher than the net book value of assets.

Fixed assets-electronic equipment, the decrease in its appraised original value was mainly because the price of most electronic equipment on reference date decreased as compared to its purchase price. The increase in appraised net value was mainly because the accounting depreciation life of the enterprise was shorter than the appraised economic life.

3. *Construction in progress*

The appraised value of construction in progress was RMB 0.00, representing a decrease of RMB 50,227,800 with a depreciation rate of 100.00%, which was because that construction in progress were all water supply pipe network projects. According to the requirements of accounting standards, upon completion, those project shall be adjusted to intangible assets as the underlying assets of the franchise for accounting. This valuation used the income approach to evaluate the franchise (including the underlying assets). The value of the construction in progress has been reflected in the franchise and was not reassessed here. Therefore, from the perspective of accounting subjects, the construction in progress subjects formed a valuation impairment.

4. *Intangible assets*

The appraised value of intangible assets was RMB 133,508,800, representing an increase of RMB 51,388,500 as compared to the book value of RMB 82,120,300 with an appreciation rate of 62.58%. If the appraised value comparison basis included the book value of the construction in progress, the increase in appraised value of intangible asset was RMB 1,160,700 with an appreciation rate of 0.88%. The reasons for the appreciation are as follows: The accounting value of the franchise was formed by the appraised net value of the relevant underlying assets and the purchase and construction cost. The book value was the amortized value of the franchise. The franchise had regional monopoly and heterogeneity, and its underlying assets were also planned for public utilities. The expected income was regulated by the government, and its value was mainly reflected in the expected income. The income approach was used to evaluate the franchise this time, and the discounted value of its future cash flow was greater than its book value, so the appreciation of the valuation was formed.

5. *Liabilities*

The appraised value of liabilities of RMB 33,264,900, representing a decrease of RMB 266,600 with a depreciation rate of 0.80%, was mainly because that the valuation impairment of the estimated liability was formed, and the estimated liability was actually the estimated repair and renewal cost of the underlying assets of the franchise. In this valuation, the asset group composed of production and operating assets related to the franchise (including the franchise and construction in progress) was assessed using the income approach. The estimated repair and renewal cost has been reasonably considered, and was not reassessed here, thus resulting in the valuation impairment of the estimated liability.

(II) Conclusion on valuation based on the income approach

The book value of owner's equity of the appraised entities was RMB122,503,700 and the appraised value amounted to RMB122,600,500, representing an increase of RMB96,800 with an appreciation rate of 0.08%.

(III) Valuation Conclusion Analysis

The difference between the appraisal values by using the asset-based approach and by using the income approach was RMB1,383,200 with a difference rate of 1.13%.

1. Generally speaking, the two valuation approaches consider different perspectives. However, for the franchise target company, the core asset-franchise right is evaluated by the income approach in the asset-based approach. The franchise right value evaluation takes into account the impact of future operating risks on the valuation conclusion. The income approach is to make a reasonable prediction of future operating income and cost of the enterprise to draw an evaluation conclusion by summing discounted future free cash flows. This explains why there is a small difference rate between the appraisal values by using the asset-based approach and by using the income approach in this evaluation.
2. The income approach determines the value of the enterprise based on its future profitability, predicting future operating income and costs, discounting future net cash flows, and summing them to arrive at an evaluation conclusion. The asset-based approach determines the value of the enterprise through re-acquisition of assets. The asset-based approach evaluates each asset and liability on an enterprise's balance sheet individually and sums them up to obtain the evaluated value of all shareholders' equity, regardless of the influence of future risks and benefits on the evaluation conclusion except for franchise right. The income approach is to make a reasonable prediction of future operating income and cost of the company to draw an evaluation conclusion by summing discounted future free cash flows.

3. Based on the background of this valuation project, following judicial mediation of the franchise license and administrative compensation case in Hunan Lizhou Water Co., Ltd.*, it was unanimously agreed that the principal would withdraw from the PPP project of the appraised entities through equity transfer. Therefore, this evaluation is based on the fact that the franchise right belongs to the Target Company and is an intangible asset of the enterprise. In particular, the asset-based approach assessment uses the income approach to evaluate and estimate the franchise rights based on sustainable conditions of the franchise business. The income approach is used to evaluate the equity value of the Target Company under the assumption that the enterprises will continue operating throughout the remaining franchise period. However, the operating business of the enterprise has essentially been taken over by Lixian Water Supply Co. Ltd.* since the reference date, which deviates from the assumption of sustainability of business activities in the income approach evaluation.
4. In conclusion, the valuation shows that the sustainability of the franchise business is not the same as the sustainability of the Target Company. Judging from the assessment assumptions, the asset-based approach valuation results can reflect the value of all equity interests of the Target Company's shareholders more reasonably than the income approach valuation results.

(IV) Final Valuation Conclusion

After comprehensive analysis, the valuation result of the **asset-based approach** has finally been selected as the final valuation conclusion.

The book value of owner's equity of Hunan Lizhou Water Co., Ltd.* was RMB122,503,700 and the appraised value amounted to RMB123,983,700 (**in words: Renminbi one hundred and twenty-three million nine hundred and eighty-three thousand seven hundred only**), representing an increase of RMB1,480,000 with an appreciation rate of 1.21%.

The appraised value of the 65.00% equity interest in Hunan Lizhou Water Co., Ltd.* involved in the proposed transfer of equity interests by Yunnan Water Investment Co., Limited* was $RMB123,983,700 \times 65.00\% = RMB80,589,400$ (**in words: eighty million five hundred and eighty-nine thousand four hundred only**).

The impact of the control premium or liquidity on the valuation conclusion has not been considered in the valuation.

VII. Validity Period of Valuation Conclusion

The assets valuation report can be used when the difference between the Valuation Reference Date and the date of realization of economic activities is not more than one year, that is, valid for one year from 30 April 2023.

VIII. Explanations to Special Matters

(I) *Incomplete or defective title documents or other important documents;*

According to the *Equity Transfer and Capital Increase Agreement in relation to PPP Projects in Urban Water Utilities in Li Xian* (《澧縣城區供水及管網PPP項目股權轉讓及增資合同》) and related agreements, the underlying assets of the franchise rights include buildings and land-use-right assets which were originally transferred from the Li Xian Water Supply Company (澧縣自來水公司) before its restructuring. The details of such assets are as follows:

Table 1 Buildings

No.	Name	Location	Property Certificate	Note
1	Laboratory building	No. 209, Yiwu West Road, Li Xian (Water Plant 2)	Li Fang Guo Yong Zi No. 000331	N/A
2	Guard room	No. 209, Yiwu West Road, Li Xian (Water Plant 2)	Not Obtained	
3	Warehouse	No. 209, Yiwu West Road, Li Xian (Water Plant 2)	Li Fang Guo Yong Zi No. 000332	N/A
4	Storeroom	No. 209, Yiwu West Road, Li Xian (Water Plant 2)	Not Obtained	
5	Disinfection unit	No. 209, Yiwu West Road, Li Xian (Water Plant 2)	Li Fang Guo Yong Zi No. 000334	N/A
6	Distribution and machine repair shop	No. 209, Yiwu West Road, Li Xian (Water Plant 2)	Li Fang Guo Yong Zi No. 000335	N/A
7	Generator room	No. 209, Yiwu West Road, Li Xian (Water Plant 2)	Li Fang Guo Yong Zi No. 000333	N/A
8	Warehouse behind buildings	No. 209, Yiwu West Road, Li Xian (Water Plant 2)	Not Obtained	
9	Pump house	No. 209, Yiwu West Road, Li Xian (Water Plant 2)	Not Obtained	
10	Switchroom and others	Hucheng Neighborhood Committee, Liyang Town, Li Xian (Water Plant 3)	Li Fang Quan Zheng Yang Zi No. 015947	N/A
11	Pump house	Hucheng Neighborhood Committee, Liyang Town, Li Xian (Water Plant 3)	Li Fang Quan Zheng Yang Zi No. 015948	N/A

No.	Name	Location	Property Certificate	Note
12	Dosing room	Hucheng Neighborhood Committee, Liyang Town, Li Xian (Water Plant 3)	Li Fang Quan Zheng Yang Zi No. 015949	N/A
13	Guard room	Hucheng Neighborhood Committee, Liyang Town, Li Xian (Water Plant 3)	Not Obtained	
14	Garage and pipe network office	No. 001, Gucheng East Road, Liyang Town, Li Xian (Headquarter)	Not Obtained	
15	Four-story office	No. 001, Gucheng East Road, Liyang Town, Li Xian (Headquarter)	Li Fang Guo Zi No. 000330	N/A
16	Five-story office	No. 001, Gucheng East Road, Liyang Town, Li Xian (Headquarter)	Li Fang Quan Zheng Yang Zi No. 004287	Available
17	Two-story office	No. 001, Gucheng East Road, Liyang Town, Li Xian (Headquarter)	Not Obtained	
18	Warehouse	No. 001, Gucheng East Road, Liyang Town, Li Xian (Headquarter)	Not Obtained	
19	Shop 8-39	Zhenzhu Neighborhood Committee, Liyang Town, Li Xian (Food City)	Li Fang Quan Zheng Li Yang Zhen Zi No. 710003549	N/A
20	Shop 8-40	Zhenzhu Neighborhood Committee, Liyang Town, Li Xian (Food City)	Li Fang Quan Zheng Li Yang Zhen Zi No. 710003550	N/A
21	Shop 8-41	Zhenzhu Neighborhood Committee, Liyang Town, Li Xian (Food City)	Li Fang Quan Zheng Li Yang Zhen Zi No. 710003551	N/A
22	Shop 8-42	Zhenzhu Neighborhood Committee, Liyang Town, Li Xian (Food City)	Li Fang Quan Zheng Li Yang Zhen Zi No. 710003552	N/A
23	Water intake pump house	Yanzhou Dam (Surface Water Plant)	Not Obtained	

No.	Name	Location	Property Certificate	Note
24	Power distribution room	Yanzhou Dam (Surface Water Plant)	Not Obtained	
25	Machine repair shop	Guanxin Neighborhood Committee, Liyang Town, Li Xian (Surface Water Plant)	Not Obtained	
26	Dosing room	Guanxin Neighborhood Committee, Liyang Town, Li Xian (Surface Water Plant)	Not Obtained	
27	Complex building	Guanxin Neighborhood Committee, Liyang Town, Li Xian (Surface Water Plant)	Not Obtained	
28	Water pump house and power distribution room	Guanxin Neighborhood Committee, Liyang Town, Li Xian (Surface Water Plant)	Not Obtained	
29	Entrance gate and reception office	Guanxin Neighborhood Committee, Liyang Town, Li Xian (Surface Water Plant)	Not Obtained	

Table 2 Land use rights

No.	Name	Location	Property Certificate	Note
1	Water Plant 3	Six group, Hucheng Community, Liyang Town, Li Xian	Li Guo Yong (2002) Zi No.78	N/A
2	Water Plant 2	Six group, Guanxin Village, Liyang Town, Li Xian	Li Guo Yong (2002) Zi No. 80	
3	Headquarter of Li Xian Water Supply Company	Gucheng Road, Liyang Town, Li Xian		
4	Surface Water Plant	Guanxin Neighborhood Committee, Li Xian		

The statistics table of assets reported by the enterprise (the appraised entity: Hunan Lizhou Water Co., Ltd.*) indicates certain assets of the buildings and land use rights have obtained property certificates and land use right certificates, while with Hunan Lixian Water Supply Company (湖南省澧縣自來水公司) as the same rights holder listed in the reported certificates. Based on the information from relevant enterprise personnel, the rights holder listed in such property certificates and land certificates relating to the above assets was not changed when transferred. In addition, during the inspection of assets, we were only provided with one property certificate, namely Li Fang Quan Zheng Yang Zi No. 004287 and one land right certificate, namely Li Guo Yong (2002) No. 80, and the remaining certificates of assets were not available. Asset valuation professionals have obtained the asset valuation report and valuation details at the time of restructuring. For the property certificates reported by the enterprise, we only checked the information in the valuation details at the time of restructuring against the information provided by the enterprise. No file enquiry was performed on the above-mentioned property certificates. Report users shall pay attention to the impacts the aforesaid facts would probably have on the valuation conclusion or economic activity.

(II) The nature and amount of guarantee, lease and its contingent liability (or contingent assets) and their relationship with the valuation subject;

The physical assets that externally leased within the valuation scope are as follows:

No.	Property Certificate	Name of Property	Source	Structure	Month/Year of Completion	Gross floor area (m ²)	Annual rent (RMB/Year)	Lease term
1	Li Fang Quan Zheng Yang Zi No. 004287	No.122, Gucheng East Road	Self-built	Frame	1997	38.00	6,500.00	1 November 2021 to 1 November 2022
2	Li Fang Quan Zheng Yang Zi No. 004287	No.122, Gucheng East Road	Self-built	Frame	1997	76.00	50,000.00	1 January 2022 to 31 December 2022
3	Li Fang Quan Zheng Yang Zi No. 004287	No.122, Gucheng East Road	Self-built	Frame	1997	38.00	25,000.00	1 January 2022 to 31 December 2022
4	Li Fang Quan Zheng Yang Zi No. 004287	No.122, Gucheng East Road	Self-built	Frame	1997	38.00	25,000.00	1 January 2022 to 31 December 2022
5	Li Fang Quan Zheng Yang Zi No. 004287	No.122, Gucheng East Road	Self-built	Frame	1997	38.00	25,000.00	1 January 2022 to 31 December 2022
6	Li Fang Quan Zheng Yang Zi No. 004287	No.122, Gucheng East Road	Self-built	Frame	1997	38.00	25,000.00	1 January 2022 to 31 December 2022
7	Li Fang Quan Zheng Yang Zi No. 004287	No.122, Gucheng East Road	Self-built	Frame	1997	38.00	25,000.00	1 January 2022 to 31 December 2022
8	Li Fang Quan Zheng Yang Zi No. 004287	No.122, Gucheng East Road	Self-built	Frame	1997	38.00	25,000.00	1 January 2022 to 31 December 2022
9	Li Fang Guo Yong Zi No. 000331	Laboratory building	Self-built	Frame	1988	608.50	44,000.00	31 December 2022 to 31 December 2025
10	Not Obtained	Storeroom	Self-built	Frame	1988			
11	Li Fang Guo Yong Zi No. 000334	Disinfection unit	Self-built	Frame	1988			
12	Li Fang Guo Yong Zi No. 000335	Distribution and machine repair shop	Self-built	Frame	1988			
13	Li Fang Guo Yong Zi No. 000333	Generator room	Self-built	Frame	1988			
Total (gross floor area)						950.50		

As of the Valuation Reference Date, the assets above-mentioned are under lease, with the lease contracts renewed once a year. Due to the appraised entity's business being under receivership, its 2023 leasing agreements were entered into by Lixian Water Supply Co. Ltd.* (澧縣城區供水有限公司), the receiving enterprise, and the lessee. The valuation discounts the lease income from all leased assets over the remaining term of the franchise, which will be included which value will be appraised in franchise value assessment, after taking into account that such leased assets are underlying assets with franchise and the leases made by the corporate are for resource optimal allocation. Report users are advised to pay attention to the possible impact of such matter on the valuation conclusion.

(III) The circumstances related to the limitation on the valuation procedure, the remedial actions taken by the asset valuation institution and the impact on the valuation conclusion;

The corporate financial accounting system only accounts the amount of receipt, release and storage of inventory without breakdown. According to the inventory breakdown from the Chengcong inventory management system of the appraised entity, the total amount of RMB3,859,100 is different from the carrying amount of RMB4,210,700 in the financial system, with differences of RMB351,600. However, the appraised entity fails to explain the specific reasons for or provide a breakdown of such differences.

As the franchise project was taken over by Lixian Water Supply Co. Ltd.* after 30 April 2023, the appraised entity fails to provide the stock in and out data between the Valuation Reference Date and the stock counting date. And due to the mass varieties and quantities of inventory lying around scattered, the actual quantity on the Valuation Reference Date can not be calculated according to the actual counting. As discussed with the inventory management personnel, it is noted that Chengcong inventory management system will record inventory data in real time and the management personnel will regularly conduct spot-check of stock. Any checking difference will be timely adjusted and reflected on the system. At the same time, the appraiser will review the checking records of the inventory management personnel.

In conclusion, the valuation will adopt the stock data of the Chengcong inventory management system provided by the entity. The differences between the inventory management system and the financial system will be credited as loss in the valuation. Report users are advised to pay attention to the possible impact of such matter on the valuation conclusion.

(IV) Report users are advised to pay attention that the valuation has considered the impact from the change of LPR from the Valuation Reference Date to the date of Valuation Report on the valuation conclusion, assuming that the change of LPR has no significant impact on its operation condition during the income period.

Report users are advised to pay attention to the possible impact of the above matters on the valuation conclusion and business activities, as well as the assumptions and restricted conditions in reaching such conclusion.

The above content is extracted from the text of the asset valuation report. Please refer to the text of the report for details of the valuation and properly understanding of the valuation conclusion.

* For identification purposes only

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The Board of Directors
Yunnan Water Investment Co., Limited
2089 Haiyuan Bei Road
Gaoxin District
Kunming, Yunnan
PRC

Dear Sirs,

**INDEPENDENT ASSURANCE REPORT ON THE CALCULATIONS OF DISCOUNTED
FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE
EQUITY INTEREST IN THE TARGET COMPANY (AS DEFINED BELOW)**

To the Board of Directors of Yunnan Water Investment Co., Limited

We have examined the calculations of the discounted future estimated cash flows on which the valuation prepared by Beijing YaChao Assets Appraisal Co.,Ltd. dated 8 April 2024 in respect of the equity interests in Hunan Lizhou Water Co., Ltd. (referred to as the “**Target Company**”), as at 30 April 2023 (the “**Valuation**”) is based. The Valuation, prepared in connection with the Target Company is set out in the circular dated 26 July 2024 (the “**Circular**”) to be issued by Yunnan Water Investment Co., Limited (the “**Company**”). The Valuation which are based on the discounted future estimated cash flows are regarded as profit forecasts under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Directors’ Responsibilities

The directors of the Company (the “**Directors**”) are solely responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the Directors and set out in the Circular (the “**Assumptions**”). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Reporting Accountant's Independence and Quality Management

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1 “Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements” issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion on whether the calculations of the discounted future estimated cash flows have been properly compiled, in all material respects, in accordance with the Assumptions on which the Valuation are based and to report solely to you, as a body, as required by Rule 14.60A(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our engagement in accordance with the terms of our engagement letter dated 6 June 2024 and Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work was limited primarily to making inquiries of the Company’s management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the compilation of the discounted future estimated cash flows. Our work does not constitute any valuation of the Target Company. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

Yours faithfully,

Moore CPA Limited

Certified Public Accountants

Pak Chi Yan

Practising Certificate Number: P06923

Hong Kong, 26 July 2024



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)

26 July 2024

Listing Division
The Stock Exchange of Hong Kong Limited
12/F, Two Exchange Square
8 Connaught Place Central
Hong Kong

Dear Sirs,

**RE: CIRCULAR —
MAJOR TRANSACTION
DISPOSAL OF INTEREST IN SUBSIDIARY**

We, Yunnan Water Investment Co., Limited (the “**Company**”) (stock code: 6839), refer to the circular of the Company dated 26 July 2024 (the “**Circular**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used herein.

We refer to the Valuation conducted by Beijing Yachao Assets Valuation Co., Ltd. (北京亞超資產評估有限公司) (the “**Valuer**”), an independent valuer. The Valuation adopts the asset-based approach and the income approach, which is based on the discounted cash flow forecast and is regarded as a profit forecast under Rule 14.61 of the Listing Rules. We have discussed with the Valuer the different aspects upon which the Valuation was prepared (including the principal and commercial assumptions) and have reviewed the Valuation for which the Valuer is responsible.

Pursuant to Rule 14.60A of the Listing Rules, we have also engaged Moore CPA Limited, acting as the Company's reporting accountants, to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (which does not involve the adoption of accounting policies), and considered the report from Moore CPA Limited which was prepared in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants, as set out in Appendix III to the Circular.

On the basis of the above, we confirm that the Valuation has been made after due and careful enquiry by us.

Yours faithfully,
On behalf of the Board
Yunnan Water Investment Co., Limited*
Mei Wei
Chairman

** For identification purposes only*

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 and 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. Zhou Zhimi	Beneficial owner	Domestic Shares	325,000 (L)	0.04	0.03

(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.

As at the Latest Practicable Date, (i) Mr. Mei Wei (a non-executive Director) is the secretary of the Party Committee and chairman of Green Environmental Protection; (ii) Mr. Dai Richeng (a non-executive Director) is the president, deputy secretary of the party committee and executive president of Beijing OriginWater; (iii) Mr. Chen Yong (a non-executive Director) is the managing director of Ningbo Kunlun Xinyuan Equity Management Partnership (Limited Partnership)* (寧波昆侖信元股權管理合夥企業 (有限合夥)) and an authorized representative of the executive partner of Yantai Xinzhen Tianying Equity Investment Center (Limited Partnership)* (煙台信貞添盈股權投資中心 (有限合夥)); (iv) Mr. Long Limin (a Supervisor) is the manager of the planning and procurement department, the chief operating officer, the chief operating officer, the chief procurement officer, the assistant to the president, the vice president and the senior vice president of Beijing OriginWater; and (v) Mr. Zhu Zhen (a Supervisor) is the general manager of the strategic development department of YHTH and the chairman of Caiyun International Investment Limited (彩雲國際投資有限公司). Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the Supervisors or chief executive of the Company was a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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 (%)
Green Environmental Protection ¹	Beneficial owner, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Huang Yunjian ¹	Beneficial owner, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Liu Xujun ¹	Beneficial owner, 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 (%)
Wang Yong ¹	Beneficial owner, 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
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 Assets Management Co., Ltd. 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
Ningbo Kunlun Xinyuan Equity Investment Management Partnership ²	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Yantai Xinzhen Tianying Equity Investment Center (Limited Partnership) ²	Beneficial owner	Domestic Shares	124,754,169 (L)	15.04	10.46
Caiyun International ¹	Beneficial owner	H Shares	8,449,000 (L)	2.32	0.71
YHTH ¹	Interests in controlled corporation	H Shares	8,449,000 (L)	2.32	0.71

Notes:

(L) refers to long position

- (1) Green Environmental Protection 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 Green Environmental Protection and H Shares held by Caiyun International pursuant to the SFO which representing approximately 31.01% of total issued Shares.

Mr. Huang Yunjian is the beneficial owner of 1,950,000 Domestic Shares.

Mr. Liu Xujun is the beneficial owner of 195,000 Domestic Shares.

Mr. Wang Yong is the beneficial owner of 585,000 Domestic Shares.

By virtue of the acting in concert agreement dated 24 July 2014 (the “**Acting in Concert Agreement**”) entered into between Green Environmental Protection, Liu Xujun, Huang Yunjian and Wang Yong, each of Liu Xujun, Huang Yunjian and Wang Yong agreed to act in concert with Green Environmental Protection in exercising their voting rights at the Shareholders’ meeting of the Company. Each of Green Environmental Protection, Liu Xujun, Huang Yunjian and Wang Yong is therefore deemed to be interested in all the Domestic Shares held by them 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**”), holds 3.85% equity interests in Xinzhen Tianying and is 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 2023, 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 date of this circular 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 date of this circular:

- (a) the equity transaction agreement dated 20 December 2022 entered into between Hyflux Utility WWT (MG) Limited (凱發新泉公用事業污水(明光)有限公司) (“**Hyflux Utility**”, being the Company’s wholly-owned subsidiary) and CGN Environmental Protection Industry Co. Ltd. (中廣核環保產業有限公司) (“**CGN Environmental Protection**”), pursuant to which, Hyflux Utility agreed to sell, and CGN Environmental Protection agreed to acquire, 100% equity interest in Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd.* (凱發污水處理(明光)有限公司) at the consideration of RMB96,523,000;
- (b) the equity transaction agreement dated 28 December 2022 entered into between the Company and CGN Environmental Protection, pursuant to which, the Company agreed to sell, and CGN Environmental Protection agreed to acquire, 100% equity interest in Lu’an Yeji Yunshui Water Investment Co., Ltd.* (六安市葉集區雲水水務投資有限公司), at the consideration of RMB87,295,900;
- (c) the equity transaction agreements dated 27 February 2023 entered into between the Company and Beijing Enterprises Water Group (China) Investment Limited* (北控水務(中國)投資有限公司), pursuant to which, the Company agreed to sell, and Beijing Enterprises Water Group (China) Investment Limited agreed to acquire, 100% equity interest in Honghe Water Industry Investment Co., Ltd.* (紅河州水務產業投資有限公司) and Shuifu Water Industry Investment Co., Ltd.* (水富縣水務產業投資有限公司), at the consideration of RMB155,400,000 and RMB28,300,000, respectively;

- (d) the Equity Transaction Agreement; and
- (e) the equity transaction agreements dated 24 June 2024 entered into between the Company and Wuxi Pinghu Jingshui Technology Co., Ltd.* (無錫坪湖淨水科技有限公司), pursuant to which the Company agreed to sell, and Wuxi Pinghu Jingshui Technology Co., Ltd. to acquire, 75% equity interest in Wuxi Zhongfa Water Investment Co., Ltd.* (無錫中發水務投資有限公司), 100% equity interest in Wuxi Yunshui Water Investment Co., Ltd.* (無錫雲水水務投資有限公司), and 100% equity interest in Wuxi Ehu Yunshui Water Investment Co., Ltd.* (無錫鵝湖雲水水務投資有限公司), at the consideration of RMB95,900,625, RMB57,046,016, and RMB18,440,300, respectively.

9. EXPERTS AND CONSENTS

The following sets out the qualifications of the experts which have given their opinion and/or advice as contained in this circular:

Name	Qualification
Beijing Yachao Assets Valuation Co., Ltd. (北京亞超資產評估有限公司)	Professional valuer
Moore CPA Limited	Certified Public Accountants

As at the Latest Practicable Date, each of the above experts:

- (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 2023 (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 each of the above experts 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 ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (www.yunnanwater.com.cn) for a period of 14 days from the date of this circular:

- (a) the Equity Transaction Agreement;
- (b) the letters on profit forecast issued by Moore CPA Limited and the Board, the texts of which are set out in Appendices III and IV to this circular;
- (c) the Valuation Report, the summary of which is set out in Appendix II to this circular;
- (d) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix; and
- (e) this circular.

** For identification purposes only*