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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)

**ANNOUNCEMENT
DISCLOSEABLE TRANSACTION
FORMATION OF THE JV COMPANY**

THE JOINT VENTURE AGREEMENT

The Board is pleased to announce that on 9 December 2016 (after trading hours), the Company and the JV Partner entered into the Joint Venture Agreement, pursuant to which the parties to the Joint Venture Agreement agreed to establish the JV Company in Haining, Zhejiang Province, the PRC with a registered capital of RMB 1.1 billion. Pursuant to the terms of the Joint Venture Agreement, the JV Company will be owned as to 49% by the Company and 51% by the JV Partner. The JV Company will be a platform for the provision of integrated environmental services in Haining, Zhejiang Province, the PRC and extending to the entire PRC. It is the intention of the parties to the Joint Venture Agreement that the Listing will occur in or before 2020.

IMPLICATION OF THE LISTING RULES

As one or more of the applicable percentage ratios for the transactions contemplated under the Joint Venture Agreement is/are more than 5% but all of them are less than 25%, the transactions contemplated under the Joint Venture Agreement constitute a discloseable transaction of the Company and are therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

INTRODUCTION

Reference is made to the announcement of the Company dated 2 November 2016 in relation to a non-legally binding cooperation framework agreement entered into between the Company and the JV Partner in respect of the strategic cooperation in the investment, construction and operation of water and environmental protection projects located in Haining, Zhejiang Province, the PRC.

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JOINT VENTURE AGREEMENT

The principal terms of the Joint Venture Agreement are set out below:

- (1) Date: 9 December 2016 (after trading hours)
- (2) Parties:
 - (i) the Company
 - (ii) the JV Partner
- (3) Scope of business

The scope of business of the JV Company includes integrated water environment protection and treatment services, rectification of lakes and river watercourses, raw water supply, industrial water supply, municipal water supply, water reuse, reservoir construction, solid waste treatment and other water conservancy and solid waste infrastructure construction projects (subject to the final approval of the industrial and commercial registration authority).

(4) Registered capital and capital contribution

The total amount of registered capital of the JV Company is RMB1.1 billion. The details are as follow:

	Amount of capital contribution (RMB)	Shareholding percentage (%)
The Company	539,000,000	49%
The JV Partner	<u>561,000,000</u>	<u>51%</u>
Total	<u>1,100,000,000</u>	<u>100%</u>

The JV Partner shall pay its share of the capital contribution by contributing its 100% equity interests in each of Haining Ziwei, Haining Ziguang, Haining Tianyuan and New Haining No. 2 Water Supply Plant (as defined below) in the following manner:

- (i) within six months after the establishment of the JV Company, the JV Partner shall complete the change of sole shareholder of each of Haining Ziwei, Haining Ziguang and Haining Tianyuan from the JV Partner to the JV Company and register such changes in industrial and commercial registration (工商登記變更); and
- (ii) Upon the signing of the Joint Venture Agreement, the JV Partner shall separate the pipeline network assets and conduct asset appraisal work (the “**Asset Appraisal Work**”) on the waterworks assets of Haining No. 2 Water Supply Plant, and use the waterworks assets and liabilities of Haining No. 2 Water Supply Plant (excluding the pipeline network assets and the relevant liabilities) as the capital contribution to establish a new company (the “**New Haining No. 2 Water Supply Plant**”). The JV Partner shall complete the Asset Appraisal Work, the establishment of New Haining No. 2 Water Supply Plant and the change of shareholder of New Haining No. 2 Water Supply Plant from the JV Partner to the JV Company and the relevant change in industrial and commercial registration (工商變更登記) before 31 December 2017.

The Company shall pay its share of the capital contribution of RMB539,000,000 within two months after the date of establishment of the JV Company in cash. The capital contribution by the Company will be funded by internal resources of the Company. The amount of capital contribution to be made by the Company was determined by the Company and the JV Partner through arm's length negotiations after taking into account the expected working capital required for the integrated water environment protection projects, rectification of lakes and river watercourses, water supply, industrial water supply, municipal water supply, water reuse, reservoir construction, solid waste treatment and other water conservancy and solid waste infrastructure construction projects to be undertaken by the JV Company.

The Company and the JV Partner agree that in the event the valuation of Haining Ziwei, Haining Ziguang, Haining Tianyuan and New Haining No. 2 Water Supply Plant exceeds RMB561,000,000, the excess amount shall be credited to the capital reserve of the JV Company (the “**Premium Amount**”). Accordingly, the Company further agrees to contribute into the JV Company an amount as calculated in the following manner and such amount shall be credited to the capital reserve of the JV Company:

$$\text{Capital contribution amount to be contributed by the Company} = \text{Premium Amount} * 0.49 / 0.51$$

If the Company is required to contribute any additional amount under the Joint Venture Agreement, the Company will comply with the relevant requirements in accordance with the Listing Rules and make further announcement(s) as and when appropriate.

- (5) The profit and loss sharing of Haining Ziwei, Haining Ziguang, Haining Tianyuan and New Haining No. 2 Water Supply Plant during the Interim Period (as defined below)

During the interim period (the “**Interim Period**”) between the asset appraisal date of Haining Ziwei, Haining Ziguang, Haining Tianyuan and New Haining No. 2 Water Supply Plant and one month before the completion of the change in industrial and commercial registration (工商登記變更), the JV Partner shall enjoy or bear all of the profit or loss of the aforesaid companies.

(6) The board composition and management structure of the JV Company

The board of directors of the JV Company (the “**Board of JV Company**”) will comprise seven members. The Company is entitled to appoint three directors and the JV Partner is entitled to appoint four directors. The chairman, who will also act as the legal representative of the JV Company, shall be a director appointed by the JV Partner. The Board of JV Company shall be elected for a term of three years and may be re-elected thereafter. The composition of the senior management of the JV Company includes a general manager, a financial controller and several deputy general managers. Prior the Listing, the general manager shall be recommended by the Company, the financial controller shall be recommended by the JV Partner and the deputy general managers shall be nominated by the general manager. All members of the senior management shall be appointed by the Board of JV Company.

(7) Restriction on equity transfer

Without the prior written consent of the other party, either party to the Joint Venture Agreement shall not transfer or dispose of its direct or indirect equity interest and equity income rights of the JV Company, whether in whole or in parts, nor create any encumbrance on such equity interest and equity income rights of the JV Company.

(8) Profit sharing

Prior to the Listing, all profits of the JV Company shall remain within the JV Company.

(9) Supervisory committee composition of the JV Company

The supervisory committee of the JV Company shall comprise three supervisors, of which one supervisor will be appointed by the Company, one supervisor will be appointed by the JV Partner, and the remaining one will be elected in the staff representatives meeting. The chairman of the supervisory committee shall be appointed by the JV Partner.

(10) Termination

The Company and the JV Partner agree that the JV Partner shall have the right of first refusal to repurchase the equity interest held by the Company (and the then price of which is to be determined by a third party valuer without any premium) or to wind up the JV Company upon the occurrence of one of the following events:

- (a) the 3-year average return (%) on net assets of the JV Company since its incorporation is lower than 5%;
- (b) the Listing fails to be achieved within 5 years from the date of establishment of the JV Company;
- (c) there is a change in the actual controller (實際控制人) of the Company; or
- (d) the effective operations of the JV Company have been interrupted by the relevant administrative authorities or the relevant laws and regulations or rules.

Information on the JV Partner

The JV Partner is a limited liability company established in the PRC and is a wholly state-owned enterprise whose establishment was approved by the Municipal Government of Haining. Its principal businesses include water supply and sewerage infrastructure, wastewater treatment infrastructure and the investment, development, construction and operational management of water-related projects. To the best knowledge, information and belief of the Directors after making all reasonable enquiries, the JV Partner and its ultimate beneficial owners (if applicable) are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

Reasons for and benefits of the Joint Venture Agreement

The Group is one of the leading integrated service providers in urban wastewater treatment and water supply industries in Yunnan Province of the PRC. The principal businesses of the Group include (i) providing water supply, wastewater treatment and solid waste treatment in various PRC cities and Southeast Asia; (ii) investment, construction and management of environmental projects; and (iii) sales of equipment and other environmental protection related services. The corporate strategy of the Group is to operate its businesses based in Yunnan Province while continuing to seek investment opportunities to expand its business to other regions to secure a stable

source of income. The JV Company will be a platform for the investment, financing, construction, operation and management of water environment projects and infrastructure construction projects in Haining, Zhejiang Province, the PRC. The JV Partner, a wholly state-owned enterprise whose establishment was approved by the Municipal Government of Haining, is principally engaged in business relating to water supply and sewerage infrastructure, wastewater treatment infrastructure and the investment, development, construction and operational management of water-related projects. The Group has rich experience in environmental control projects such as urban wastewater treatment and tap water supply projects. Through cooperation, the parties to the Joint Venture Agreement will sort out and integrate existing water projects in Haining, thereby quickly and effectively revitalize existing water and related environmental assets in Haining. The Directors believe that the strengths and experiences of the parties to the Joint Venture Agreement, in conjunction with the market demand to optimize and integrate lake and river watercourses and other environmental protection projects in the region, will ensure effective cooperation between the parties to the Joint Venture Agreement in implementing environmental protection projects and infrastructure construction projects. The strategic cooperation between the Company and the JV Partner will play a complementary role in developing overall environmental protection projects and infrastructure construction projects within Haining, Zhejiang Province, the PRC, while generating favorable economic benefits. After considering the above factors, the Directors are of the view that the Joint Venture Agreement was entered into after arm's length negotiations and on normal commercial terms, and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATION OF THE LISTING RULES

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DEFINITIONS

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

“Board”	the board of Directors
“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);

“Director(s)”	the director(s) of the Company;
“Domestic Share(s)”	the issued ordinary shares at the nominal value of RMB1.00 per share in the share capital of the Company which are subscribed for or credited as paid up in RMB;
“H Share(s)”	the issued ordinary shares at the nominal value of RMB1.00 per share in the share capital of the Company and listed on the Main Board of the Stock Exchange (Stock Code: 6839);
“Haining No. 2 Water Supply Plant”	Haining No. 2 Water Supply Plant Company Limited* (海寧市第二水廠有限公司), a limited liability company established in the PRC, which is owned as to 70% by the JV Partner;
“Haining Tianyuan”	Haining Tianyuan Drainage Engineering Materials Company Limited* (海寧市天源給排水工程物資有限公司), a limited liability company established in the PRC, and a wholly-owned subsidiary of the JV Partner;
“Haining Ziguang”	Haining Ziguang Water Company Limited* (海寧紫光水務有限責任公司), a limited liability company established in the PRC, and a wholly-owned subsidiary of the JV Partner;
“Haining Ziwei”	Haining Ziwei Water Company Limited* (海寧紫薇水務有限責任公司), a limited liability company established in the PRC, and a wholly-owned subsidiary of the JV Partner;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Joint Venture Agreement”	the joint venture agreement entered into between the Company and the JV Partner on 9 December 2016;
“JV Company”	Zhejiang Haiyun Environmental Protection Company Limited* (浙江海雲環保有限公司) (subject to the final name as approved and registered by the local government authority), a limited liability company to be established by the parties to the Joint Venture Agreement in Haining, Zhejiang Province, the PRC, pursuant to the Joint Venture Agreement;

“JV Partner”	Haining Municipal Water Investment Group Co., Limited* (海寧市水務投資集團有限公司), a limited liability company established in the PRC;
“Listing”	the proposed listing of the shares of the JV Company on the Stock Exchange or on the stock exchanges in the PRC in or before 2020
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	The People’s Republic of China, for the purpose of this announcement only, excluding Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“RMB”	Renminbi, the lawful currency of PRC;
“Share(s)”	the Domestic Shares and/or H Shares;
“Shareholder(s)”	the holder(s) of Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“%”	percentage.

By Order of the Board of
Yunnan Water Investment Co., Limited*
Xu Lei
Chairman

Kunming, PRC
9 December 2016

As at the date of this announcement, the executive directors of the Company are Mr. Yu Long, Mr. Dai Richeng, Mr. Liu Xujun and Mr. Huang Yunjian, the non-executive directors of the Company are Mr. Xu Lei (Chairman), Mr. Jiao Jun, Mr. He Yuanping and Mr. Feng Zhuangzhi, and the independent non-executive directors of the Company are Mr. Kwok For Chi, Mr. Hu Song, Mr. Ma Shihao and Mr. Ren Gangfeng.

** For identification purposes only*