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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
IN RELATION TO THE
ACQUISITION OF 90% EQUITY INTEREST IN
THE TARGET COMPANY**

The Board is pleased to announce that on 12 May 2017 (after trading hours), the Purchaser (a non-wholly owned subsidiary of the Company) has entered into the Equity Transfer Agreement with the Vendor, pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Interest for the Consideration of RMB276,520,900 (subject to adjustment).

As one or more of the applicable percentage ratios of the Acquisition are more than 5% but all applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

INTRODUCTION

On 12 May 2017 (after trading hours), the Purchaser (a non-wholly owned subsidiary of the Company) has entered into the Equity Transfer Agreement with the Vendor, pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Interest for the Consideration of RMB276,520,900 (subject to adjustment).

THE ACQUISITION

The Equity Transfer Agreement

The principal terms of the Equity Transfer Agreement are summarized below:

Date

12 May 2017 (after trading hours)

Parties

- (i) the Purchaser (a non-wholly owned subsidiary of the Company, as purchaser)
- (ii) the Vendor (as vendor)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor, the Target Company and their respective ultimate beneficial owners were third parties independent of the Company and its connected persons as at the date of this announcement.

Sale Interest

The Purchaser has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell, the Sale Interest, representing 90% of the equity interest in the Target Company as at the date of this announcement, free from all encumbrances, and together with all rights and benefits attaching and accruing thereto.

Consideration and payment terms

The Consideration shall be RMB276,520,900 (subject to adjustment). Such Consideration shall be paid by the Company in two installments in the following manner:-

- (i) The first installment of consideration in the amount of RMB193,564,600 (the "**First Installment**") shall be paid on the day of the fulfilment or waiver of the conditions precedent to the First Installment, which shall fall on or before 31 May 2017, of which a sum of RMB150,000,000 of the First Installment (the "**Escrow Money**") shall be deposited into an escrow account opened by the Vendor with the Lending Bank in accordance with the escrow agreement (the "**Escrow Agreement**") to be entered into between the Purchaser, the Vendor and the Lending Bank, and the remaining sum of RMB43,564,600 shall be paid to the

Vendor. Within ten Business Days from the payment date of the First Installment, the Vendor shall arrange to release the Pledge on Equity Interest with the Lending Bank and complete the relevant filing and registration procedures in relation to the transfer of the Sale Interest to the Purchaser. Within 15 Business Days upon completion of the aforementioned filing and registration procedures, the Purchaser and the Vendor shall arrange to register the new pledge in relation the Loan Facility with the Lending Bank in accordance with the Escrow Agreement and the Purchaser and the Vendor shall fully cooperate in that respect; and

- (ii) The second installment of consideration in the amount of RMB82,956,300 (the “**Second Installment**”) shall be paid on the day of the fulfillment or waiver of the conditions precedent to the Second Installment, which shall fall on or before 30 April 2018.

Consideration adjustment

In the event the actual operating performance indicators fall below the level undertaken by the Vendor in respect of the Project Plant, the Consideration shall be adjusted downward in the following manner:

- (a) $(A-B)/10 \times (\text{RMB}7,500,000)$

Where

A = The average on-grid power generated by the Project Plant per tonne of wastes, which is 350 kilowatt-hours as undertaken by the Vendor under the Equity Transfer Agreement

B = The actual on-grid power generated by the Project Plant per tonne of wastes

- (b) $(X-Y) \times (\text{RMB}2,500,000)$

Where

X = The average daily municipal solid waste delivered to the Project Plant, which is 600 tonnes as undertaken by the Vendor under the Equity Transfer Agreement

Y = The actual daily municipal solid waste delivered to the Project Plant

Any adjustment to the Consideration due to the above events shall be done in the following order (i) the Purchaser deducting the relevant amount from the Second Installment; and (ii) the Vendor paying the relevant amount to the Purchaser.

Further, pursuant to the Equity Transfer Agreement, the Consideration shall be adjusted upon the occurrence of the following events:

- (i) if the deduction rate of the value of the equipment as provided for in the final audit report for the construction of the first phase of the Project Plant is more than 5% (inclusive of 5%), the Purchaser shall be entitled to deduct such amount from the Second Installment;
- (ii) in relation to the Project Plant, if the final construction fees (the “**Final Construction Fees**”) payable to Fujian No. 2 Construction Group Co., Ltd.* (福建省二建建設集團有限公司) (“**Fujian Construction**”) by the Target Company exceed RMB47,950,000 as shown in the audited accounts of the Target Company as at the Reference Date, the Vendor shall pay the difference (the “**Vendor’s Payables**”) to the Target Company in order to pay to Fujian Construction; and if the Final Construction Fees are lower than RMB47,950,000, the Purchaser shall pay the difference to the Target Company through increase in its capital reserve, and the Target Company shall pay such difference to the Vendor (the “**Purchaser’s Payables**”) through special dividend distribution, provided that the Final Construction Fees shall not exceed RMB73,600,000 as stipulated under the relevant construction contract entered into between Fujian Construction and the Target Company and shall not be less than RMB40,000,000. For the avoidance of doubt, the Vendor’s Payables shall not exceed RMB25,650,000 and the Purchaser’s Payables shall not exceed RMB7,950,000; and
- (iii) if, as at the payment date of the First Installment, only part of the receivables as shown in the audited accounts of the Target Company (the “**Audited Accounts Receivables**”) as at the Reference Date have been recovered by the Target Company, the Purchaser shall be entitled to withhold such shortfall amount (the “**Shortfall Accounts Receivables**”) from the First Installment. Within four years from the payment date of the First Installment, the Target Company shall issue a written statement to the Vendor and the Purchaser within the first 15 days of each quarter of each year regarding the status of recovery of the Shortfall Accounts Receivables and the Purchaser shall pay to the Vendor such amount of the First Installment as withheld based on the recovery of the Shortfall Accounts Receivables.

Basis of determining the Consideration

The Consideration was agreed after negotiation between the Purchaser and the Vendor on an arm's length basis and having regard to a number of relevant factors, including (i) the geographical location and the scale of, and the economic benefits attributed to, the BOT Project operated by the Target Company; (ii) the concession rights in respect of the BOT Project under the Concession Agreement; (iii) the value attributable to the Target Company after Completion; (iv) the rights to occupy and use the Project Land, buildings and ancillary facilities of the Target Company during the Concession Period; and (v) the project(s) to be built by the Target Company.

The Consideration will be settled by internal resources of the Group.

Conditions precedents

Pursuant to the Equity Transfer Agreement, the two installments of payment shall be subject to the fulfillment of the following conditions precedent:

1. Conditions precedent to the First Installment

- (a) All consents of third parties including but not limited to the Lending Bank and the relevant administrative authority(ies) etc. required in relation to the signing of the Equity Transfer Agreement (where necessary) having been obtained;
- (b) The valuation of the Sale Interest and the filing of such valuation with the competent department of the Purchaser having been completed;
- (c) The environmental protection acceptance and fire safety acceptance in relation to the first phase of the Project Plant having been completed;
- (d) The representations and warranties given by the Vendor under the Equity Transfer Agreement having remained true, complete, valid and accurate until the payment date of the First Installment;
- (e) The Vendor having fulfilled and complied with all of its undertakings and obligations under the Equity Transfer Agreement in all aspects;
- (f) There having been no event or circumstance which has caused or is reasonably expected to cause material adverse change to the Target Company up to the payment date of the First Installment;

- (g) The Purchaser or its representatives having completed its business, legal and financial due diligence (or audit) on the Target Company in material respects and the Target Company having resolved the business, legal and financial issues in the manner acceptable to the Purchaser, including but without limitation to, the power purchase and sales contract (購售電合同) and grid connection and dispatch agreement (併網調度協議); and
- (h) The Audited Accounts Receivables having been actually and fully recovered by the Target Company.

2. Conditions precedent to the Second Installment

- (a) The Vendor having fulfilled all its undertakings and obligations under the Equity Transfer Agreement in all respects;
- (b) The Target Company having resolved the business, legal and financial issues in the manner acceptable to the Purchaser, including but without limitation to:-
 - (i) The Target Company having obtained the confirmations from Sanming Housing and Urban-Rural Development Bureau (三明市住房和城鄉建設局) in relation to the occupancy and use of the Project Land, buildings and ancillary facilities;
 - (ii) The Target Company having completed the registration or filing in relation to the amendment of the articles of association and changes of senior management including directors, supervisors, general managers and legal representatives as nominated by the Purchaser and the content and format of all documents (including but not limited to the Equity Transfer Agreement, shareholders' resolutions and articles of association, etc.) to be filed and registered with the relevant authorities having complied with the relevant laws and regulations and such filing and registration having been completed;
 - (iii) The Target Company having obtained the business license, sewage discharge permit (排污許可證) and electric power business license (電力業務許可證) and completed the filing for preferential tax treatment; and
 - (iv) There having been no event or circumstance which has caused or is reasonably expected to cause material adverse change to the Target Company up to the payment date of the Second Installment;

- (v) The Vendor having provided all information, certificates, chops and completed the transfer in accordance with the Equity Transfer Agreement;
 - (vi) The Target Company having obtained the approval documents and compliance documents such as the project approval in relation to the concession project for the construction of the second phase of the Project Plant with a daily waste treatment capacity of 600 tonnes per day such that the total waste treatment capacity of the first phase and second phase of the Project Plant shall amount to 1,200 tonnes per day; and
 - (vii) The Target Company having completed the filing of the final acceptance for the construction of the first phase of the Project Plant; and
- (c) The Target Company having obtained the written consent from Sanming Housing and Urban-Rural Development Bureau (三明市住房和城鄉建設局) under the Concession Agreement, which expressly states that it consents to the transfer of the Sale Interest and confirms that the concession rights in relation to the BOT Project is legally valid and there have been no circumstances of restricting, terminating or cancelling the relevant concession rights (if such written consent shall not have been obtained within six months from the payment date of the First Installment (the “**Six-month Period**”), the Purchaser shall have the rights to either require the Vendor to return the First Installment paid, or be entitled to the shareholder’s interests in the remaining 10% equity interest in the Target Company then held by the Vendor and the relevant dividend distribution during the Six-month Period until such written consent has been obtained and upon which the Purchaser shall return any entitlements and benefits received during the Six-month Period to the Vendor);
- (d) The Vendor having fulfilled the payment obligations in relation to the Vendor’s Payables (where relevant); and
- (e) The Target Company having obtained valid valued-added tax invoices from its suppliers, Shenzhen Tianqiang Environmental Protection Electric Power Equipment Co., Ltd.* (深圳天強環保電力設備有限公司) and Shenzhen Huagao Energy Technology Co., Ltd.* (深圳市華高能源科技有限責任公司) for the corresponding amounts in accordance with the contracts signed and the relevant amounts paid in relation to the BOT Project.

If any of the conditions are not fulfilled on or before the Long Stop Date due to the change of laws, force majeure events or governmental factors, the Long Stop Date for such conditions shall be extended to such a later time as approved by the Purchaser (the “**Extended Long Stop Date**”). If such conditions are still not fulfilled by the Extended Long Stop Date, the Purchaser shall be entitled to terminate the Equity Transfer Agreement by written notice to the Vendor and the Vendor shall be liable for the breach of the Equity Transfer Agreement in accordance with the terms thereof.

The Purchaser may at any time waive any of the conditions, or request the Vendor to fulfill any of the conditions after Completion by notice in writing to the Vendor. If the Purchaser requests the Vendor to fulfill any of the conditions after Completion by notice in writing to the Vendor, such conditions shall automatically be changed to conditions subsequent and the Vendor shall use its best endeavors to procure their fulfillment as soon as possible after Completion, but in any event, by no later than 60 days from the date of Completion, failing which the Vendor shall be liable for the breach of the Equity Transfer Agreement in accordance with the terms thereof.

Completion

Completion shall take place on the within ten Business Days from the payment date of the First Installment. As mentioned in the sub-paragraph headed “Consideration and payment terms” above, upon completion of the filing and registration procedures in relation to the transfer of the Sale Interest to the Purchaser, the Purchaser and the Vendor shall arrange to register the new pledge in relation the Loan Facility with the Lending Bank in accordance with the Escrow Agreement and the Purchaser and the Vendor shall fully cooperate in that respect.

Upon Completion, the Company will, through the Purchaser, own 90% of the equity interest in, and the concession rights to, the BOT Project and the Target Company will become an indirect non wholly-owned subsidiary of the Company. The financial results of the Target Company will be consolidated in the financial statements of the Group upon Completion.

Events of termination

Other than the customary termination events which have been included in the Equity Transfer Agreement, the Equity Transfer Agreement also provides that if, within 12 months from the commercial operation of the BOT Project, the average daily municipal solid waste delivered to the Project Plant is less than 400 tonnes or the average on-grid power generated by the Project Plant per tonne of wastes is less than 280 kilowatt-hours, the Purchaser shall be entitled to terminate the Equity Transfer Agreement.

INFORMATION OF THE COUNTERPARTIES

Information on the Vendor

The Vendor is a limited liability company established in the PRC, which is primarily engaged in the research and development of technologies for processing and utilizing municipal wastes, investment in environmental protection projects and related technical consulting services.

To the best of the Directors' knowledge, information and belief, the Vendor's Group is principally engaged in the investment, construction and operation of the environmental protection industry and etc.

Information on the Target Company

The Target Company is an investment company established in the PRC on 12 November 2009 with a registered capital of RMB300,000,000. The Target Company is principally engaged in the construction, operation and management of the BOT Project under the Concession Agreement for 30 years from 2012 (the "**Concession Period**"). As at the date of this announcement, the design capacity for the first phase of the Project Plant was 600 tonnes per day and such total designed capacity is expected to be 1,200 tonnes per day in the near future.

Financial information of the Target Company

Set out below is a summary of the audited financial information of the Target Company for the two financial years ended 31 December 2015 and 2016 prepared in accordance with the PRC accounting standards:

	For the year ended 31 December 2015	For the year ended 31 December 2016
	<i>RMB ('000)</i>	<i>RMB ('000)</i>
	<i>(Approximately)</i>	<i>(Approximately)</i>
Net profit / (loss) before tax	8,002	(9,239)
Net profit / (loss) after tax	8,002	(9,239)

According to the audited financial information of the Target Company, the net asset value of the Target Company as at 31 December 2016 was approximately RMB290,362,000.

REASONS FOR AND BENEFITS OF THE ACQUISITION

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 South East Asia; (ii) investment, construction and management of environmental projects; and (iii) sales of equipment and other environmental 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 for a stable source of income.

In line with the corporate strategy of the Group to expand its business to further develop and penetrate into the local market, the Group intends to further expand its municipal waste incineration business in Fujian Province, the PRC through the Acquisition. The Acquisition has considerable significance as it serves as the gateway for the Group to further business opportunities in the environmental protection industry in Fujian Province and hence, further expanding the Group's footprint in the Fujian Province and enhancing the Group's profitability. After taking the above factors into account, the Directors consider that the terms of the Equity Transfer Agreement are fair and reasonable and in the interest of the Company and its shareholders as a whole.

IMPLICATIONS OF THE LISTING RULES

As one or more of the applicable percentage ratios of the Acquisition are more than 5% but all applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Interest by the Purchaser from the Vendor in accordance with the terms and conditions of the Equity Transfer Agreement
“Board”	the board of Directors

“BOT Project”	the Build-Operate-Transfer (BOT) project in relation to the Project Plant under the Concession Agreement
“Business Day(s)”	any day other than a Saturday, Sunday or statutory holiday announced by the PRC government from time to time
“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)
“Completion”	completion of the Acquisition under the Equity Transfer Agreement
“Concession Agreement”	the concession agreement (including any supplement thereto) in relation to the BOT Project dated June 2012 entered into between the Sanming Housing and Urban-rural Construction Bureau (三明市住房和城鄉建設局) and the Target Company
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration in the sum of RMB276,520,900 (subject to adjustment) payable by the Purchaser to the Vendor for the Acquisition
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	the issued ordinary shares at the nominal value of RMB1.00 per share in the share capital of the Company which are subscribed for or credited as paid up in RMB
“Equity Transfer Agreement”	the equity transfer agreement entered into between the Purchaser and the Vendor on 12 May 2017 with respect to the Acquisition
“Group”	the Company and its subsidiaries
“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)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Lending Bank”	the Sanming Branch of the Bank of China Limited
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Loan Facility”	the loan facility in the sum of not exceeding RMB150,000,000 granted by the Lending Bank to the Target Company pursuant to the loan agreement dated 7 April 2015 entered into between the Lending Bank and the Target Company
“Long Stop Date”	31 December 2018
“Pledge on Equity Interest”	the pledge created over approximately 31.7% equity interest of the Target Company in favour of the Lending Bank in relation to the Loan Facility
“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
“Project Land”	a piece of land located at Dutou Ping, Huangsha Village, Sanyuan District, Sanming, Fujian, the PRC with an area of approximately 65,806.51 square metres, which is owned by Sanming Environmental Sanitation Management Office* (三明市環境衛生管理處) and on which the Project Plant is located
“Project Plant”	the municipal solid waste incineration power plant (生活垃圾焚燒發電廠) located on the Project Land
“Purchaser”	Yunnan Solid Waste Investment Co., Ltd. (雲南固廢投資有限公司), a joint venture limited liability company established in the PRC on January 2017 which was owned as to 75% by the Company and 25% by Yunnan Sidu Investment Management Co., Ltd.* (雲南斯度投資管理有限公司) as at the date of this announcement
“Reference Date”	28 February 2017
“RMB”	Renminbi, the lawful currency of PRC
“Sale Interest”	the aggregate of 90% equity interest in the Target Company as at the date of this announcement

“Share(s)”	Domestic Shares and/or H Shares
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary/(ies)”	has the meaning ascribed to it under the Listing Rules
“Target Company”	Sanming Jinliya Environmental Protection Technological Investment Co., Ltd.* (三門市金利亞環保科技投資有限公司), a limited liability company established in the PRC which was owned as to 100% by the Vendor as at the date of this announcement
“Vendor”	Zhongshan Chuangzhi Building Materials Technology Co., Ltd.* (中山市創志建材科技有限公司), a limited liability company established in the PRC, and wholly owned by Loyal Bright Holdings Limited (創志集團有限公司) as at the date of this announcement
“Vendor’s Group”	the Vendor and its subsidiaries and holding companies
“%”	per cent

By Order of the Board of
Yunnan Water Investment Co., Limited*
Jiao Jun
Acting Chairman

Kunming, the PRC
12 May 2017

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

* *For identification purposes only*