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YUNNAN WATER

雲南水務投資股份有限公司

Yunnan Water Investment Co., Limited*

(a joint stock limited liability company incorporated in the People's Republic of China)

(Stock code: 6839)

DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITION OF TRANSFER INTEREST AND THE SUBSCRIPTION OF SUBSCRIPTION INTEREST OF THE TARGET COMPANY

THE INVESTMENT

On 25 January 2019 (after trading hours), the Company entered into the Investment Agreement with the Existing Shareholders, the Beneficial Owners and the Target Company, pursuant to which (i) the Company has conditionally agreed to acquire, and the Waytop Investment has conditionally agreed to sell, the Transfer Interest, which represents 20% of the registered capital of the Target Company as at the date of this announcement, for the Transfer Consideration in the amount of RMB120,000,000; and (ii) the Company has conditionally agreed to subscribe for the Subscription Interest, which represents 20% of the registered capital of the Target Company on a fully-diluted basis as enlarged by the Subscription, for the Subscription Consideration in the amount of RMB200,000,000 (comprising newly increased registered capital of approximately RMB33,333,333 and capital reserve of approximately RMB166,666,667).

LISTING RULES IMPLICATIONS

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the Investment are more than 5% but less than 25%, the Investment constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the notification and announcement requirements as set out in the Listing Rules.

INTRODUCTION

On 25 January 2019 (after trading hours), the Company entered into the Investment Agreement with the Existing Shareholders, the Beneficial Owners and the Target Company, pursuant to which (i) the Company has conditionally agreed to acquire, and the Waytop Investment has conditionally agreed to sell, the Transfer Interest, which represents 20% of the registered capital of the Target Company as at the date of this announcement, for the Transfer Consideration in the amount of RMB120,000,000; and (ii) the Company has conditionally agreed to subscribe for the Subscription Interest, which represents 20% of the registered capital of the Target Company on a fully-diluted basis as enlarged by the Subscription, for the Subscription Consideration in the amount of RMB200,000,000 (comprising newly increased registered capital of approximately RMB33,333,333 and capital reserve of approximately RMB166,666,667).

THE INVESTMENT AGREEMENT

The principal terms of the Investment Agreement are summarized below:

Date

25 January 2019 (after trading hours)

Parties

- (1) the Company
- (2) the Existing Shareholders
- (3) the Beneficial Owners
- (4) the Target Company

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Existing Shareholders and Beneficial Owners and its ultimate beneficial owners (if applicable) is a third party independent of the Company and its connected persons (as defined in the Listing Rules).

Subject Matter

The Transfer

Pursuant to and subject to the terms and conditions set out in the Investment Agreement, the Company has conditionally agreed to purchase, and Waytop Investment has conditionally agreed to sell, the Transfer Interest, which represents 20% 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, for the Transfer Consideration in the amount of RMB120,000,000.

The Subscription

Pursuant to and subject to the terms and conditions set out in the Investment Agreement, the Company has agreed to subscribe for the Subscription Interest, which represents 20% of the registered capital of the Target Company on a fully-diluted basis as enlarged by the Subscription, for the Subscription Consideration in the amount of RMB200,000,000 (comprising newly increased registered capital of approximately RMB33,333,333 and capital reserve of approximately RMB166,666,667).

Conditions Precedent

Completion of the Investment Agreement shall be subject to and conditional upon the following conditions precedent being satisfied or otherwise waived by the Company in writing:

- (1) the Company having conducted, and to the satisfaction of the Company, its due diligence exercise on the Target Company in respect of its legal, financial, management, technical, intellectual property, business operations, corporate documents and regulatory affairs;
- (2) all relevant approvals, permissions, consents and filings for implementation of the Investment Agreement having been obtained;
- (3) all representations and warranties made by the Target Company, the Existing Shareholders and the Beneficial Owners in the Investment Agreement being true, accurate and complete and not misleading in all material respects, and all commitments and conventions set out in the Investment Agreement that should be observed or performed by the Target Company, the Existing Shareholders and the Beneficial Owners on or before the Completion Date having been observed or performed in all material respects;
- (4) all transaction documents including the Investment Agreement and the articles of association of the Target Company having been duly executed and delivered;
- (5) the core staff of the Target Company having signed employment contracts in such form and substance to the satisfaction of the Company with a term of employment of not less than three years;
- (6) the core staff of the Target Company having signed non-competition agreements in such form and substance to the satisfaction of the Company which contain standard non-competing restrictive covenants for a period of two years upon termination of employment;
- (7) there being no occurrence of events which result in or could have significant adverse effects on the business, financial conditions and shareholding structures of the Target Company.

(collectively “**conditions precedent**”)

The completion of the Transfer and the completion of the Subscription are inter-conditional on each other.

Completion and Payment of the Transfer Consideration and the Subscription Consideration

The Company shall pay the Subscription Consideration to the Target Company by depositing the corresponding sum of RMB200,000,000 a bank account designated by the Company within ten (10) Business Days from the date of fulfilment (or waiver) of the conditions precedent.

The Company shall pay the Transfer Consideration to Waytop Investment by depositing the sum of RMB120,000,000 after deducting the relevant withholding tax to a bank account designated by Waytop Investment within ten (10) Business Days from the date of filing or approval (whichever is later) of the Investment by higher authorities.

Completion shall take place upon payment of the date of payment of the Transfer Consideration or the date of payment of the Subscription Consideration, whichever is later.

Upon Completion, the Company will own 40% of the equity interest in the Target Company as enlarged by the Subscription. Since the Company is entitled to appoint 4 out of 7 directors in the board of directors of the Target Company, the Target Company will become an indirect non wholly-owned subsidiary of the Company, and the financial results of the Target Company will be consolidated in the financial statements of the Group upon Completion.

The Transfer Consideration and the Subscription Consideration were arrived at after arm's length negotiations between all the parties to the Investment Agreement and were on normal commercial terms with reference to and taking into account (i) the evaluation of the net assets of the Target Company; and (ii) the performance undertaking as set out in the section headed "Other Provisions and undertakings by the Target Company, Existing Shareholders and Beneficial Owners. The Company shall finance the Transfer Consideration and the Subscription Consideration from its internal resources.

The Directors (including independent non-executive Directors) consider that the Transfer Consideration and the Subscription Consideration payable by the Company under the Investment Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Management of the Target Company

After completion of the Investment, the board of directors of the Target Company will consist of seven (7) directors, of which, the Company will be entitled to appoint four (4) directors and the Existing Shareholders will be entitled to appoint three (3) directors. The chairman of the Target Company, who will be legal representative, will be appointed among the directors appointed by the Company. The general manager of the Target Company will be recommended by the Existing Shareholders and appointed by the board of directors of the Target Company. The financial controller of the Target Company will be recommended by the Company and appointed by the board of directors of the Target Company.

The following matters have to be approved by all directors attending the board meeting of the Target Company:

- (a) amendments of articles of association of the Target Company;
- (b) cessation, winding up or liquidation of the Target Company;
- (c) increase or reduction of registered capital of the Target Company; or
- (d) merger or division of the Target Company.

Other Provisions and Undertakings by the Target Company, Existing Shareholders and Beneficial Owners

Except for those specifically agreed in the Investment Agreement, during the period from the date of signing of the Investment Agreement until the date of registration with the administration of industry and commerce or the date of termination (whichever is earlier), the Target Company, the Existing Shareholders and the Beneficial Owners undertake to:

- (a) operate the business of the Target Group in accordance and consistent with the normal and usual business practices;
- (b) use his/its best endeavours to ensure that the business of the Target Group remain intact in all material respects;
- (c) notify and seek the consent of the Company in the following events outside the ordinary and usual course of business of the Target Group:
 - (i) alteration of the articles of association due to changes in the shareholding structure;
 - (ii) disposal or transfer of equity interests or creation of encumbrances thereon;
 - (iii) merger or formation of joint venture with other entities;
 - (iv) distribution of profits or any other form of distribution; or
 - (v) dismissal of senior management and core staff.

The Existing Shareholders and the Beneficial Owners undertake that the consolidated net profit of the Target Company for the year ended 31 December 2019 and 2020 shall be not less than RMB75,000,000 and RMB88,000,000, respectively. If the Target Company fails to achieve the aforementioned performance indicators in any of the financial years, the Existing Shareholders and the Beneficial Owners shall be jointly and severally responsible to make up the shortfall of the consolidated net profit for the Target Company in accordance with the respective shareholding in the Target Company.

The Company shall be entitled to co-sale rights in the event that any of the Existing Shareholders disposes of its equity interests in the Target Company except for the transfers by the Existing Shareholders to their respective affiliated entities as approved by the Company.

The Company shall be entitled to preferential rights in the distribution of assets over the Existing Shareholders in the event of dissolution or liquidation of the Target Company.

At any time when the Company holds any equity interest in the Target Company, the Existing Shareholders may not directly or indirectly transfer any equity interest of the Target Company without the consent of the Company.

The Existing shareholders, the Beneficial Owners and key management personnel of the Target Company shall enter into non-competition and non-solicitation agreements with the Target Company in such form as approved by the Company. The Existing Shareholders and the Beneficial Owners may not directly or indirectly own, manage, engage in, operate, consult, provide services for, and participate in any legal entity, institution, social organization or other entity that competes with the business of the Target Company.

Termination

The Investment Agreement shall terminate under the following circumstances:

- (1) at any time before the Completion Date, (i) the occurrence of any event or situation which has caused a material adverse effect; (ii) any representations and warranties of the Target Company, the Existing Shareholders and the Beneficial Owners are untrue or incorrect such that the conditions precedent cannot be fulfilled; (iii) the Target Company, the Existing Shareholders and the Beneficial Owners have breached any of the commitments or obligations in the Investment Agreement such that the conditions precedent cannot be fulfilled; or (iv) any legal proceedings have been initiated by or against any member of the Target Group that have a material adverse effect such that any member of the Target Group is declared to be in criminal proceedings, bankruptcy or insolvency, or is ordered to wind up or cease business due to bankruptcy or insolvency in accordance with the PRC laws, the Company is entitled to terminate the Investment Agreement by giving a notice of fifteen (15) Business Days in advance to Waytop Investment or the Target Company;
- (2) if the Target Company fails to complete the corresponding registration with respect to the Investment on or before 31 March 2019 due to the reasons attributable to the Target Company, the Company is entitled to terminate the Investment Agreement by giving a notice of fifteen (15) Business Days in advance to Waytop Investment or the Target Company;

- (3) if the Company fails to complete the payment for the Transfer Consideration in accordance with the Investment Agreement, Waytop Investment is entitled to terminate the Investment Agreement;
- (4) if the Company fails to complete the payment for the Subscription Consideration in accordance with the Investment Agreement, the Target Company is entitled to terminate the Investment Agreement; or
- (5) by unanimous consent among all the parties to the Investment Agreement in writing.

INFORMATION ON THE PARTIES

The Company

The Company is one of the leading integrated service providers in the urban sewage treatment and water supply industry in the PRC. Its principal operations include investment, construction and management services in relation to urban water supply, sewage treatment, solid waste treatment and environmental governance projects, equipment sales and other environmental protection related services. The corporate strategy of the Company is to base its business in Yunnan Province and continue to identify investment opportunities to expand its operations gradually into other regions to ensure stable income sources.

The Existing Shareholders and the Beneficial Owners

Waytop Investment is a limited liability company incorporated in Hong Kong, and is wholly owned by Mr. Wang Xinyan. To the best knowledge of the Directors, the principal business of Waytop Investment is investment holding. Mr. Wang Xinyan is a director of three insignificant subsidiaries (on an aggregated basis) of the Company as defined under Rule 14A.09 of the Listing Rules.

Xinde Investment is a limited liability company incorporated in Hong Kong, and is wholly owned by Mr. Chen Jian and to the best knowledge of the Directors, the principal business of Xinde Investment is investment holding.

The Target Company

The Target Company is a limited liability company established in the PRC and its registered capital immediately before Completion is RMB100,000,000. The Target Group is principally engaged in the entire industrial chain of urban and rural environmental services covering road sweeping and cleaning, the collection and transportation of household waste, the construction and operation of waste transfer stations, watercourse management and maintenance, virescence maintenance, and investment and operation of rural-urban sanitation integration projects. The Target Group is the largest private environmental integrated service provider in Fujian Province, which is its main market, and further expanded its business to Zhejiang Province, Hainan Province and Yunnan Province with the service qualification in the operational cleaning, collection and transportation of urban household waste and category A qualification in environmental sanitation work in Fujian Province.

Shareholding Structure of the Target Company

The following table sets out changes in the shareholdings ratio of the Target Company as at the date of this announcement and immediately upon Completion:

Name of the Shareholders	As at the date of this announcement		Immediately upon completion of the Transfer		Immediately upon completion of the Subscription	
	Amount of Contribution	Shareholdings Ratio	Amount of Contribution	Shareholdings Ratio	Amount of Contribution	Shareholdings Ratio
	(RMB million)	(%)	(RMB million)	(%)	(approx. RMB million)	(approx. %)
Waytop Investment	60	60%	40	40%	40	30%
Xinde Investment	40	40%	40	40%	40	30%
The Company	—	—	20	20%	53.33	40%
Total	100	100%	100	100%	133.33	100%

Financial Information of the Target Company

Set out below is a summary of the audited consolidated financial information of the Target Company for the two financial years ended 31 December 2016 and 2017 prepared in accordance with the PRC accounting standards:

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2017 RMB'000
Turnover	200,699	344,167
Net profit/(loss) before tax and extraordinary items	35,284	57,649
Net profit/(loss) after tax and extraordinary items	26,334	41,887

According to the unaudited consolidated financial information of the Target Company, the net asset value and total asset value of the Target Company as at 30 June 2018 was approximately RMB134.7 million and RMB420.1 million, respectively.

REASONS FOR AND BENEFITS OF THE INVESTMENT

In recent years, with increasing support from policies, the sanitation service industry in which the Target Company operates has entered into a period of rapid development, and it has a distinct nature of public utility, integrated with monopolistic and scale effects. On the basis of the two major business segments of the Company (water treatment and solid waste treatment), the Company will realize the closed loop of the entire industrial chain of the solid waste treatment sector through

the investment in the Target Company, which is conducive to the linkage between upstream and downstream industries in the solid waste treatment sector. Meanwhile, compared with the water treatment and solid waste treatment projects, the initial investment of the sanitation project is relatively small, and the operating cashflow is stable, which is expedient to the further improvement of the Company's profitability. In the future, leveraged on the whole industry chain service of the environmental protection integrated with water treatment, solid waste treatment and environmental sanitation of the Company, the Company will have more competitive strengths in the process of new project expansion, which is beneficial for market expansion.

The Directors consider that the terms and conditions of the Investment Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the Investment are more than 5% but less than 25%, the Investment constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the notification and announcement requirements as set out in the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Beneficial Owners”	Mr. Wang Xinyan (王新顏) and Mr. Chen Jian (陳健), being the beneficial owners of the Existing Shareholders
“Board”	the board of Directors
“Business Day”	a day other than Saturday, Sunday or any day on which banks are closed for business in the PRC
“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”	the completion of The Investment
“Completion Date”	the date of payment of the Transfer Consideration or the date of payment of the Subscription Consideration, whichever is later
“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

“Existing Shareholders”	Waytop Investment and Xinde Investment, being the existing shareholders of the Target Company before the Investment
“H Share(s)”	overseas listed foreign ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Investment”	the Transfer and the Subscription
“Investment Agreement”	the investment agreement dated 25 January 2019 among (i) the Company; (ii) the Existing Shareholders; (iii) the Beneficial Owners; and (iv) the Target Company in relation to the Investment
“Listing Rules”	the Rules Governing the Listing of the Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	Domestic Shares and/or H Shares
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Subscription Interest by the Company from the Target Company in accordance with the terms and conditions of the Investment Agreement
“Subscription Consideration”	the consideration in the sum of RMB200,000,000 payable by the Company to the Target Company for the Subscription
“Subscription Interest”	the new equity interest in the Target Company to be subscribed by the Company, representing 20% of the registered capital of the Target Company on a fully-diluted basis as enlarged by the Subscription
“subsidiary/(ies)”	has the meaning ascribed to it under the Listing Rules
“Target Company”	Fujian Dongfei Environment Group Co., Ltd* (福建東飛環境集團有限公司), a limited liability company established in the PRC

“Target Group”	the Target Company and its subsidiaries
“Transfer”	the acquisition of the Transfer Interest by the Company from Waytop Investment in accordance with the terms and conditions of the Investment Agreement
“Transfer Consideration”	the consideration in the sum of RMB120,000,000 payable by the Company to Waytop Investment for the Transfer
“Transfer Interest”	the 20% equity interest in the Target Company as at the date of this announcement
“Waytop Investment”	Waytop Investment Group Limited (滙鼎投資集團有限公司), a limited liability company incorporated in Hong Kong
“Xinde Investment”	Xinde Investment Limited (鑫德投資有限公司), a limited liability company incorporated in Hong Kong
“%”	per cent

By order of the Board
Yunnan Water Investment Co., Limited*
Yang Tao
Chairman

Kunming, the PRC
25 January 2019

As at the date of this announcement, the executive Directors of the Company are Mr. Yu Long (Vice-chairman) and Mr. Yang Fang, the non-executive Directors of the Company are Mr. Yang Tao (Chairman), Ms. Li Bo, Mr. He Yuanping, and Mr. Feng Zhuangzhi, and the independent non-executive Directors of the Company are Mr. Liu Shuen Kong, Mr. Hu Song and Mr. Ma Shihao.

* For identification purposes only