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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)

CONNECTED TRANSACTION

INTRODUCTION

The Board is pleased to announce that on 30 September 2019 (after trading hours), the Company has entered into the Equity Transfer Agreement with the Vendors, pursuant to which the Company has conditionally agreed to acquire, and the Vendors have conditionally agreed to sell, the Sale Shares (i.e. the total issued share capital of the Target Company) at a consideration of RMB40,300,000.

IMPLICATIONS OF THE LISTING RULES

As at the date of this announcement, Beijing OriginWater holds approximately 24.02% of the total issued share capital of the Company (including Domestic Shares and H Shares) and is a substantial shareholder of the Company. Therefore, Beijing OriginWater is a connected person of the Company as defined in Chapter 14A of the Listing Rules and the Acquisition constitutes a connected transaction of the Company as defined in Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios of the Acquisition are more than 0.1% but less than 5%, the relevant connected transaction is subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules, but exempt from the circular (including independent financial advice) and independent shareholders' approval requirements.

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EQUITY TRANSFER AGREEMENT

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

Date: 30 September 2019 (after trading hours)

Parties: (i) the Company (as the purchaser)

(ii) Vendors (i.e. Beijing OriginWater and Mr. Lin)

As at the date of this announcement, Beijing OriginWater holds approximately 24.02% of the total issued share capital of the Company (including Domestic Shares and H Shares) and is a substantial shareholder of the Company. Therefore, Beijing OriginWater is a connected person of the Company as defined in Chapter 14A of the Listing Rules.

In addition, to the best knowledge, information and belief of the Directors, after having made all reasonable enquiries, Mr. Lin is independent of the Company and its connected persons.

Sale Shares

Pursuant to the Equity Transfer Agreement, the Company has conditionally agreed to acquire, and the Vendors have conditionally agreed to sell, the Sale Shares, i.e. 100% equity interest in the Target Company.

Consideration

The amount of consideration for the Acquisition is RMB40,300,000. In particular, the consideration for the acquisition of the 67.72% equity interest in the Target Company held by Beijing OriginWater is RMB28,880,000 and the consideration for the 32.38% equity interest in the Target Company held by Mr. Lin is RMB11,500,000. Relevant considerations shall be paid by the purchaser in two installments in cash in the following manner:

- (i) Payment for 50% of the equity interest for sale to the Vendors within five days from the fulfillment of the conditions precedent to the first installment; and
- (ii) Payment for the remaining 50% of the equity interest for sale to the Vendors within five days from the fulfillment of the conditions precedent to the second installment or written waiver of the Company.

The consideration for the Acquisition was determined by the Company and the Vendors through arm's length negotiation after giving consideration to a number of relevant factors including (i) the construction scale and processing capacity of the Guanxian Hazardous Waste Project of the Target Company; and (ii) the potential business opportunities and development prospects of the Target Company and comprehensive consideration after the audit and assessment by third parties. The consideration for the Acquisition shall be settled by debt financing and/or internal resources of the Group.

Taxation

All taxes and fees arising from the transfer of the Sale Shares under the Equity Transfer Agreement shall be borne by the parties in accordance with the relevant laws and regulations.

The Vendors shall voluntarily perform the tax payment obligation according to the law for the income tax payable by the Vendors for the transfer of the Sale Shares. In particular, the personal income tax payable by Mr. Lin shall be withheld by the Company. If the Target Company evaded or owed relevant taxes before the transfer date, when the relevant authorities in the PRC or any other country or region requires the Target Company to pay the relevant taxes and fees for the aforementioned evasion or default of payment at any time, the liability for the payment of taxes shall be borne by the Vendors in proportion to their respective shareholdings before the transfer of the Sale Shares. If the request on the payment of taxes by the Company or the Target Company causes losses to the Company or the Target Company, the Company or the Target Company shall have the right to claim compensation from the Vendors in proportion to their respective shareholdings before the transfer of the Sale Shares.

Conditions Precedent

Pursuant to the Equity Transfer Agreement, the above two installments of payment are subject to the fulfillment of the following conditions precedent or written waiver by the Company:

1. Conditions precedent to the first installment

- (i) Transfer of the equity interest held by Beijing OriginWater in the Target Company to be under the name of the Company and completion of the registration of changes in shareholding with industrial and commercial administration authorities; and
- (ii) Transfer of the equity interest held by Mr. Lin in the Target Company to be under the name of the Company and completion of the registration of changes in shareholding with industrial and commercial administration authorities.

2. Conditions precedent to the second installment

- (i) The Equity Transfer Agreement has been signed by the purchaser and the Vendors and has entered into force;
- (ii) The Company and the Vendors have completed the internal decision-making procedures for the approval of the Acquisition and the Equity Acquisition Agreement, respectively, including resolutions of shareholders (general meetings), board resolutions or other necessary effective resolutions;
- (iii) The Company has been registered as the sole shareholder of the Target Company by the industrial and commercial registration management authority in the registration of changes, and all necessary change registrations requested by the Company have been completed, including but not limited to: the documents including the articles of association of the Target Company have been modified according to the requirements of the Company, the legal representative, directors, supervisors and senior management of the Target Company have been changed to those recommended by the Company, and the registration of the above changes has been completed with the industrial and commercial registration management authority;
- (iv) The Target Company has successfully obtained the right to use state-owned construction land with a total area of not less than 40 Mu for phase II of Guanxian Hazardous Waste Project through land auction, and has obtained the corresponding state-owned land use right certificate. At the same time, the above-mentioned 40 Mu of land shall meet all necessary requirements for the construction and operation of Guanxian Hazardous Waste Project, including but not limited to the nature of the land use and planning conditions;
- (v) The Vendors have repaid any debts owing to the Target Company to the Target Company (whether or not the debts have expired), including but not limited to the borrowing of RMB1,000,000 owed by Mr. Lin to the Target Company;
- (vi) The Vendors and the Target Company have fulfilled and complied with the Equity Transfer Agreement in all aspects;
- (vii) All relevant written documents (if any) approved by third parties to be executed for the signing of the Equity Transfer Agreement have been obtained in accordance with the relevant laws and regulations; and
- (viii) No event or circumstance that has brought about or will have a material adverse effect based on reasonable expectations has emerged or happened with the Target Company.

If certain conditions precedent to the second installment cannot be fulfilled before the Long Stop Date, the completion period of the relevant conditions precedent may be postponed with the consent of the Company, or the Equity Transfer Agreement may be immediately terminated by the Company's exercise of the right of termination. The Vendors shall return the consideration paid by the Company to the Vendors for the transfer of any equity interest within five working days after the termination of the Equity Transfer Agreement.

If Mr. Lin fails to repay the borrowing of RMB1,000,000 to the Target Company pursuant to (v) under the conditions precedent to the second installment, and the Company elects to exempt the condition precedent, the Company is entitled to directly deduct RMB1,000,000 from the consideration payable to Mr. Lin for the equity transfer.

Transfer of Equity Interest

The transfer date is the tenth working day after the registration of the equity interest for sale under the name of the Company. The Vendors shall complete the transfer according to the agreement on the transfer date.

The Vendors shall prepare a transfer list which is subject to confirmation by the Company before the transfer date. The Company shall confirm the transfer materials and the transfer checklist after verification, and the confirmed transfer checklist and the verification confirmation form shall be attached to the Equity Transfer Agreement. The Vendors shall complete transfer to the preparation personnel of the Company in accordance with the transfer checklist and verification confirmation form as confirmed by the Company on the transfer date.

The Vendors shall guarantee the truthfulness, accuracy, validity and completeness of the materials handed over by the Target Company and that all materials listed in the verification confirmation form are handed over to the Company to ensure that the policy and business operations of the Target Company after the transfer date are not affected.

After completion of the transfer procedures, in case of circumstances during the operation the Target Company by the Company that the relevant procedures for the Target Company and Guanxian Hazardous Waste Project to be completed after the transfer date are hampered due to reasons including lack of or incomplete information at transfer, the Vendors are obliged to provide proactive cooperation and provide the materials required to be provided by the Vendors.

Effectiveness of and Changes to the Equity Transfer Agreement

The Equity Transfer Agreement shall take effect on the date of signing and affixing official seal by the respective legal representatives or authorized representatives of the purchaser and the Vendors. Changes to the Equity Transfer Agreement are subject to the written changes or supplemental agreement by the purchaser and the Vendors.

INFORMATION ON THE TARGET COMPANY

The Target Company is a limited liability company incorporated in the PRC and its business scope is mainly about the project of comprehensive utilization and treatment of solid waste. The reserve projects of the Target Company mainly include the investment, construction and operation of Guanxian Hazardous Waste Project with the annual designed total treatment capacity of 90,000 tons. At present, the project is in the early stage of preparation for construction, and the construction of the project has not yet officially commenced.

According to the audited financial information of the Target Company, the net assets value attributable to the shareholders of the Target Company as at 31 May 2019 was approximately RMB22,126,963.

The audited net profit (before and after tax) attributable to the shareholders of the Target Company for the two years ended 31 December 2017 and 2018 and for the five months ended 31 May 2019 is set out below:

	For the year ended 31 December 2017 <i>RMB'000</i>	For the year ended 31 December 2018 <i>RMB'000</i>	For the five months ended 31 May 2019 <i>RMB'000</i>
Net profit/(loss) before tax attributable to the shareholders of the Target Company	(46)	(472)	(437)
Net profit/(loss) after tax attributable to the shareholders of the Target Company	(46)	(397)	(363)

INFORMATION ON THE VENDORS

As at the date of this announcement, Beijing OriginWater holds 67.62% equity interest in the Target Company and Mr. Lin holds 32.38% equity interest in the Target Company.

Beijing OriginWater, a substantial shareholder of the Company, is a limited liability company established in the PRC and listed on the Shenzhen Stock Exchange (stock code: 300070). Its principal businesses include sewage treatment technology, water resources management technology, general construction contracting, environmental pollution treatment engineering design, commissioned production of membranes, membrane components, membrane equipment and ancillary products, etc.

Mr. Lin is a Chinese citizen.

As at the date of this announcement, Beijing OriginWater holds approximately 24.02% of the total issued share capital of the Company (including Domestic Shares and H Shares) and is a substantial shareholder of the Company. In addition, to the best knowledge, information and belief of the Directors, after having made all reasonable enquiries, Mr. Lin is independent of the Company and its connected persons.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is one of the leading municipal environment integrated services providers in Yunnan Province of the PRC and its principal businesses include water supply, sewage water treatment and solid waste treatment in cities, investment, construction and management service in environmental projects, sales of equipment and other environmental related services. The corporate strategy of the Group is to operate business based in Yunnan Province and constantly seek investment opportunities to gradually expand business to other regions, so as to secure a stable source of income.

Guanxian Hazardous Waste Project is located in Liaocheng City, Shandong Province. After completion of the project, the Company will have industrial hazardous waste projects in Jinan City, Tai'an City, Qingyun County and Liaocheng City, and have the largest treatment scale, reasonable geographical layout and comprehensive treatment types, further improves the Company's profitability in the solid waste segment. The Acquisition is in line with the Group's corporate strategy of cross-regional development, which is of great significance for the future expansion of new projects in Shandong Province.

Based on the aforesaid, 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 at the date of this announcement, Beijing OriginWater holds approximately 24.02% of the total issued share capital of the Company (including Domestic Shares and H Shares) and is a substantial shareholder of the Company. Accordingly, Beijing OriginWater is a connected person of the Company as defined in Chapter 14A of the Listing Rules and the Acquisition constitutes a connected transaction of the Company as defined in Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios of the Acquisition are more than 0.1% but less than 5%, the relevant connected transaction is subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules, but exempt from the circular (including independent financial advice) and independent shareholders' approval requirements.

DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Shares by the Company from the Vendors pursuant to the terms and conditions of the Equity Transfer Agreement;
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“Beijing OriginWater”	Beijing OriginWater Technology Co., Ltd.* (北京碧水源科技股份有限公司), a substantial shareholder of the Company and a limited liability company established in the PRC on 17 July 2001 and listed on the Shenzhen Stock Exchange (stock code: 300070). As at the date of this announcement, it holds 67.72% equity interest in the Target Company;
“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);
“connected person”	has the meaning ascribed to it under the Listing Rules;
“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 agreement entered into between the Company and the Vendors on 30 September 2019 in relation to the Acquisition;
“Group”	the Company and its subsidiaries;
“Guanxian Hazardous Waste Project”	the project of comprehensive utilization and treatment of solid waste to be invested, constructed and operated by the Target Company in Guanxian Economic Development Zone (north side of North Ring Road 2 and east side of East Ring Road 2) in Liaocheng City, Shandong Province, the PRC, which covers an area (usable area) of 92 Mu;
“H Share(s)”	the issued ordinary shares at the 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);
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time;
“Long Stop Date”	the long stop date for the Purchaser and the Vendors to complete payment of the consideration for the equity transfer, registration of changes in shareholding and transfer of rights and obligations in accordance with the provisions under the Equity Transfer Agreement, which is determined to be 31 December 2024;

“Mr. Lin”	Mr. Lin Kehong, a Chinese citizen, who holds 32.38% equity interest in the Target Company as at the date of this announcement;
“Mu”	a Chinese unit for land area, equaling to approximately 666.67 square meters;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sale Shares”	the shares representing 100% equity interest in the share capital of the Target Company;
“Share(s)”	Domestic Share(s) and/or H Share(s);
“Shareholder(s)”	holder(s) of the Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the same meaning ascribed to it under the Listing Rules;
“Target Company”	Liaocheng Chuanglian Environmental Technology Co., Ltd.* (聊城市創聯環保科技有限公司), a limited liability company incorporated in the PRC;
“Vendors”	Beijing OriginWater and Mr. Lin, who jointly hold 100% equity interest in the Target Company as at the date of this announcement; and
“%”	per cent.

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

Kunming, the PRC
30 September 2019

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

* For identification purposes only