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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**

On 17 June 2020 (after trading hours), the Company entered into the Capital Increase Agreement with YAM and the Target Company, pursuant to which, YAM has agreed to subscribe for certain interests of the Target Company (representing 19.38% of the registered capital of the Target Company on a fully-diluted basis as enlarged by the Capital Increase) at the subscription consideration of RMB300,000,000 (comprising newly increased registered capital of approximately RMB134,573,800 and capital reserve of approximately RMB165,426,200).

### **IMPLICATIONS OF THE LISTING RULES**

As the Capital Increase is an allotment of share capital by a subsidiary of the Company, it constitutes a deemed disposal under Rule 14.29 of the Listing Rules.

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

## **INTRODUCTION**

On 17 June 2020 (after trading hours), the Company entered into the Capital Increase Agreement with YAM and the Target Company, pursuant to which, YAM has agreed to subscribe for certain interests of the Target Company (representing 19.38% of the registered capital of the Target Company on a fully-diluted basis as enlarged by the Capital Increase) at the subscription consideration of RMB300,000,000 (comprising newly increased registered capital of approximately RMB134,573,800 and capital reserve of approximately RMB165,426,200).

# **THE CAPITAL INCREASE AGREEMENT**

The principal terms of the Capital Increase Agreement are summarized below:

## **Date**

17 June 2020 (after trading hours)

## **Parties**

- (1) the Company;
- (2) YAM; and
- (3) the Target Company

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, each of YAM 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).

## **The Capital Increase**

Pursuant to and subject to the terms and conditions set out in the Capital Increase Agreement, YAM has agreed to subscribe for certain interests of the Target Company (representing 19.38% of the registered capital of the Target Company on a fully-diluted basis as enlarged by the Capital Increase) at the subscription consideration of RMB300,000,000 (comprising newly increased registered capital of approximately RMB134,573,800 and capital reserve of approximately RMB165,426,200).

## **Conditions Precedent**

Upon the taking effect of the Capital Increase Agreement, the payment of the subscription consideration of the Capital Increase made by YAM to the Target Company is conditional upon all following conditions being satisfied or all or part of them being waived by YAM:

1. YAM has completed the due diligence of the Target Company to the satisfaction of YAM.
2. The Capital Increase has been fully evaluated, audited, registered, filed or approved in accordance with laws, regulations and regulatory documents, articles of association of all the parties, relevant requirements and the needs of competent authorities or departments, and the Target Company and the Company have obtained the approval from the competent authorities or departments for the Capital Increase.
3. An appraisal agency approved by YAM and having legal qualifications has been selected to complete the asset appraisal of the Target Company, and the asset appraisal results of the Capital Increase have been filed with the competent institutions for the supervision of state-owned assets (if involved).

4. The following matters have been completed: 1) the Target Company has issued legal and valid written resolutions (resolutions of the board of directors, resolutions of the shareholders' meeting or shareholders' decisions) in accordance with its articles of association, stating that the existing shareholders of the Target Company have consented to the capital increase of RMB300,000,000 by YAM to the Target Company and have waived their pre-emption rights in the Capital Increase; 2) the Target Company and the Company have agreed to disclose the information that should be disclosed in accordance with laws, regulations and regulatory documents in a timely and accurate manner (if necessary).
5. The legal documents such as the contracts and agreements for the Capital Increase have been signed by all parties and come into effect, and since the date of signing, no default has occurred, or the default has been resolved or waived to the satisfaction of YAM.
6. The Company has reached a written agreement with YAM on the revised contents of the articles of association of the Target Company involved in the Capital Increase (the contents must reflect and conform to those as agreed in the Capital Increase Agreement).
7. As of the closing date stipulated in the Capital Increase Agreement, the statements, guarantees and commitments made by the Target Company and the Company under the Capital Increase Agreement continue to be true, complete and accurate.
8. As of the closing date stipulated in the Capital Increase Agreement, the financial conditions, business operations and asset conditions of the Target Company and the Company have not experienced any significant adverse changes since the signing of the Capital Increase Agreement.
9. YAM has passed its internal investment decisions regarding the Capital Increase.
10. The Target Company and the Company have provided YAM with written confirmation letters signed by their respective legal representatives or authorized representatives and affixed with their respective official seals confirming the fulfilment of all conditions precedent as well as relevant supporting documents (relevant contents must be approved by YAM).
11. YAM has the right to decide to pay all or part of the subscription consideration in advance according to the actual situation if the above conditions are not fully met, and YAM's early payment of the subscription consideration does not constitute a waiver of any rights under the Capital Increase Agreement, nor does it constitute an endorsement or waiver of other parties' non-performance of contractual obligations, nor does it constitute a flawed performance of YAM.

### **The Payment of Subscription Consideration and the Completion**

With the unanimous consent of the parties to the Capital Increase Agreement and subject to the fulfillment of all conditions precedent as recognized by YAM (or such conditions have been fully or partially waived in writing by YAM) or in accordance with the condition precedent No. 11, YAM may pay the subscription consideration in one lump sum to the bank account opened by the Target Company in accordance with the Capital Increase Agreement. The completion will take place on the payment date of the subscription consideration.

The subscription consideration is determined after arm's length negotiations between the parties to the Capital Increase Agreement on normal commercial terms after having referenced and considered the net assets of the Target Company on the valuation base date appraised by the independent third-party appraisal agency using the asset-based method.

### **Corporate Governance of the Target Company**

From and inclusive of the completion date of the Capital Increase, YAM has the right to exercise the shareholders' rights to participate in the Target Company's governance and management without compromising its interests. The resolutions made by the Target Company's shareholders' meeting and the board of directors shall not damage the legitimate rights and interests of YAM. The Target Company shall take measures and the Company shall ensure that the contents related to corporate governance in the Capital Increase Agreement will be implemented by modifying the Target Company's articles of association.

#### ***1. Shareholders' meeting of the Target Company***

The shareholders' meeting of the Target Company is composed of the Company and YAM. The legitimate rights of shareholders shall be protected.

#### ***2. Board of directors of the Target Company***

From and inclusive of the completion date of the Capital Increase, the board of directors of the Target Company shall consist of three members, of which YAM shall have the right to nominate one director and the Company shall have the right to nominate two directors. Each party has the right to remove or change the directors nominated by itself, and the notice of the removal or change of directors shall be effective after being served on the Target Company. Each party and their nominated directors or proxies should ensure that they vote in favour of the above matters at the shareholders' meeting and the meeting of the board of directors of the Target Company to promote the election of the directors nominated by the party entitled to nominate.

The term of office of each director of the board of directors of the Target Company is three years commencing on the passing date of resolutions at the shareholders' meeting of the Target Company. The members of the board of directors whose terms expire may be re-elected. In the event that there are vacancies on the board of directors arising from the change, resignation, incapacity or death of directors, the original nominating party of such directors may nominate the successors, and each party shall prompt the shareholders' meeting of the Target Company to elect such successors as members of the board of directors of the Target Company to complete the term of such directors.

## **Profit Distribution**

Since the year when the Capital Increase is completed, the profits shall be distributed to the shareholders of the Target Company according to their contribution ratios of registered capital. Profit distribution shall be paid in cash.

## **The Taking-effect, Supplementation, Modification, Alteration and Cancellation of the Capital Increase Agreement**

The Capital Increase Agreement shall take effect after all the legal representatives or authorized representatives of all parties sign or seal and affix their official seals and all parties obtain external approval or file with external institutions as necessary in respect of the Capital Increase.

For any matters about the Capital Increase not mentioned in the Capital Increase Agreement, the parties may enter into supplementary agreements separately.

The parties to the Capital Increase Agreement may modify or alter the Capital Increase Agreement through negotiation and agreement. Any amendments or changes must be produced in written documents, which will take effect after being signed by the parties to the Capital Increase Agreement. The revised parts or supplementary agreements shall have the same legal effect as the Capital Increase Agreement, and if the revised parts or supplementary agreements conflict with the Capital Increase Agreement, the former shall prevail.

In the event that the Capital Increase Agreement is cancelled, the parties to the Capital Increase Agreement shall return the consideration under the Capital Increase Agreement received from the other party in accordance with the principles of fairness, reasonableness, honesty and credibility. Except as otherwise stipulated in the Capital Increase Agreement, the Target Company and the Company shall be jointly and severally liable to refund YAM all the subscription consideration made by it. For any overdue payment, liquidated damages shall be paid to YAM each day in respect of outstanding amount based on 0.05% of the subscription consideration from the overdue date, until the Target Company and/or the Company have paid all the aforementioned amounts.

## **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 the 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 Company's corporate strategy is to continuously identify investment opportunities and expand its business to other regions with Yunnan Province as its business base so as to secure a stable source of income.

## YAM

YAM is a limited liability company established in the PRC and a wholly-owned subsidiary of Yunnan Investment Holding Group Co., Ltd.\* ( 雲南省投資控股集團有限公司 ) with the de facto controller being the State-owned Assets Supervision and Administration Commission of Yunnan Province\* ( 雲南省國資委 ), and its main businesses include asset acquisition and disposal, asset operation and management as well as economic consulting and services.

### The Target Company

The Target Company is a limited liability company established in the PRC. Before the completion of the Capital Increase, it was a wholly-owned subsidiary of the Company. The Target Company's principal business covers municipal public works, environmental protection engineering, engineering technology consulting, membrane products, membrane components and related equipment manufacturing.

### The Shareholding Structure of the Target Company

The changes in the shareholding structure of the Target Company before and after the completion of the Capital Increase are set out in the following table:

Name of shareholder	Before the Capital Increase		After the Capital Increase	
	Contribution amount (RMB'000)	Shareholding ratio	Contribution amount (RMB'000)	Shareholding ratio
Yunnan Water	56,000.00	100%	56,000.00	80.62%
YAM	—	—	13,457.38	19.38%
Total	<u>56,000.00</u>		<u>69,457.38</u>	

### The Financial Information of the Target Company

The following is a summary of the audited consolidated financial information of the Target Company for the two financial years ended 31 December 2018 and 2019, prepared in accordance with PRC accounting standards:

	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2019 RMB'000
Net profit/(loss) before tax and non-recurring items	257,613	214,450
Net profit/(loss) after tax and non-recurring items	196,837	173,747

According to the audited consolidated financial information of the Target Company, as at 31 December 2019, the net assets and total assets of the Target Company were approximately RMB882.9 million and RMB4,255.9 million, respectively.

## **REASONS FOR AND BENEFITS OF THE INVESTMENT**

The Directors are of the view that, the Group may reduce the asset-liability ratio of both the Target Company and the Group itself and supplement the working capital through the Capital Increase, and the terms and conditions of the Capital Increase Agreement are established on normal commercial terms, fair and reasonable and in the interest of the Company and its Shareholders as a whole.

## **IMPLICATIONS OF THE LISTING RULES**

As the Capital Increase is an allotment of share capital by a subsidiary of the Company, it constitutes a deemed disposal under Rule 14.29 of the Listing Rules.

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

## **DEFINITIONS**

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

- “Capital Increase Agreement” the capital increase agreement entered into between (i) the Company; (ii) YAM; and (iii) the Target Company in respect of the Capital Increase on 17 June 2020;
- “Capital Increase” the subscription of interests in the Target Company by YAM under the terms and conditions of the Capital Increase Agreement;
- “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, whose H Shares are listed on the Main Board of the Stock Exchange (stock code: 6839);
- “Director(s)” the director(s) of the Company;
- “Domestic Shares” the ordinary shares in issue in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed in RMB or credited as fully paid;
- “H Shares” the overseas-listed ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each;

“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“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, excluding Hong Kong, 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)”	the holder(s) of 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”	Yunnan Yunshui Construction & Engineering Co., Ltd* (雲南雲水建設工程有限公司);
“YAM”	Yunnan Asset Management Co., Ltd.* (雲南省資產管理有限公司); and
“%”	per cent.

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

Kunming, the PRC  
17 June 2020

*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. Chen Yong, 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*