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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)

**MAJOR TRANSACTION
IN RELATION TO THE DISPOSAL OF 40%
INTEREST IN
THE TARGET COMPANY**

THE DISPOSAL

References are made to the announcements of the Company dated 31 July 2020 and 28 September 2020, in relation to the Company's approval of the disposal of 40% equity interest held by the Company in the Target Company by way of public tender through YNEX. As of the date of this announcement, the process of the public tender through YNEX has been completed.

The Board is pleased to announce that on 29 September 2020 (after trading hours), the Company (as the vendor) and Dingrong Environmental Protection (as the purchaser) entered into the Equity Transaction Agreement and the Supplemental Agreement to the Equity Transaction Agreement, pursuant to which, the Company has agreed to sell, and Dingrong Environmental Protection has agreed to acquire, the Sale Shares at the Consideration of RMB375,200,000.

Upon completion of the Disposal, the Company shall cease to have any interest in the Target Company.

LISTING RULES IMPLICATION

Since one or more of the applicable percentage ratios in respect of the Disposal exceed(s) 25% but is/are below 75%, the Disposal will constitute a major transaction of the Company and is therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

GENERAL

A circular containing, among other things, (i) further information about the Disposal; and (ii) other disclosable information under the Listing Rules will be despatched by the Company to the Shareholders in accordance with the Listing Rules and relevant requirements under the Articles of Association before 18 October 2020.

The Disposal may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

THE DISPOSAL

References are made to the announcements of the Company dated 31 July 2020 and 28 September 2020, in relation to the Company's approval of the disposal of 40% equity interest held by the Company in the Target Company by way of public tender through Yunnan Equity Exchange (YNEX). As of the date of this announcement, the process of the public tender through YNEX has been completed.

The Board is pleased to announce that on 29 September 2020 (after trading hours), the Company (as the vendor) and Dingrong Environmental Protection (as the purchaser) entered into the Equity Transaction Agreement and the Supplemental Agreement to the Equity Transaction Agreement, pursuant to which, the Company has agreed to sell, and Dingrong Environmental Protection has agreed to acquire, the Sale Shares at the Consideration of RMB375,200,000. Upon completion of the Disposal, the Company shall cease to have any interest in the Target Company. The principal terms of the Equity Transaction Agreement and the Supplemental Agreement to the Equity Transaction Agreement were summarized as follows:

THE EQUITY TRANSACTION AGREEMENT

Date: 29 September 2020 (after trading hours)

Parties: (i) the Company (as the vendor); and
(ii) Dingrong Environmental Protection (as the purchaser)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Dingrong Environmental Protection and its ultimate beneficial owner are third parties independent of the Company and its connected persons (as defined in the Listing Rules) as at the date of this announcement.

Sale Shares

Under the Disposal, the Company has agreed to sell, and Dingrong Environmental Protection has agreed to acquire, 40% interest in the Target Company.

Consideration, Payment Terms and Basis of Determining the Consideration

The Company has entrusted YNEX to obtain the equity bidder through the way of public tender, and the method of agreement transfer is adopted. The Consideration of the Disposal is RMB375,200,000, which was determined based on the appraised value of the Sale Shares on 31 December 2019 using the income approach in the valuation report issued by the PRC valuer.

The Credit and Debt Treatment Involved in the Disposal

Upon completion of the Disposal, the new shareholders of the Target Company will continue to inherit its credit and debt.

Tax and Fees for the Equity Transfer

Tax and fees involved in the equity transfer shall be borne by the Company and Dingrong Environmental Protection as agreed or in accordance with the relevant laws of the PRC, or by Dingrong Environmental Protection in case of no specified agreement or requirement.

SUPPLEMENTAL AGREEMENT TO THE EQUITY TRANSACTION AGREEMENT

Date: 29 September 2020 (after trading hours)

Parties: (i) the Company (as the vendor); and
(ii) Dingrong Environmental Protection (as the purchaser)

Payment Method of the Consideration

According to the agreement, the Consideration shall be paid to the Company in two installments:

- (i) Dingrong Environmental Protection shall make one-off deposit of RMB225,200,000 into the bank account designated by the Company within five working days from the date of entering into of the Supplemental Agreement to the Equity Transaction Agreement;
- (ii) In accordance with the notice of YNEX, Dingrong Environmental Protection had paid YNEX RMB150,000,000 as transaction deposit which shall in turn be paid by YNEX to the Company as part of the Consideration.

Equity Delivery

The Company shall assist Dingrong Environmental Protection to complete the industrial and commercial change registration procedures and the pledge deregistration procedures of the Sale Shares within five working days after Dingrong Environmental Protection completes payment of the Consideration and the Company obtains the approval of Shareholders.

The transition period is from the Valuation Reference Date (i.e. 31 December 2019) to the date when Dingrong Environmental Protection makes the full transaction payment except the transaction deposit (subject to the actual transaction payment received by the Company's account) according to the Supplemental Agreement to the Equity Transaction Agreement. The profits of the Target Company generated during the transition period shall be owned by the Company according to the original shareholding proportion.

Both parties agree that (i) Dingrong Environmental Protection shall pay the Company an advance payment of the profits during the transition period of RMB24,000,000 when Dingrong Environmental Protection makes payment of the Consideration to the Company in view of the profits during the transition period owned by the Company, (ii) after the transition period special audit on the Target Company is completed, the settlement shall be made otherwise by each parties according to the audit results; (iii) Dingrong Environmental Protection shall own the profit distribution right of the Target Company from the Valuation Reference Date after entire and actual fulfillment of foresaid agreed obligations in this article.

Effective Date of the Equity Transaction Agreement

According to the Supplemental Agreement to the Equity Transaction Agreement, the Equity Transaction Agreement shall be established from the date when it is signed and sealed by the legal representatives of both parties, and shall take effect from the date when the Company's shareholders approve the Disposal.

INFORMATION OF THE COUNTERPARTY

Dingrong Environmental Protection was incorporated in the PRC in April 2019 and is primarily engaged in researches into environmental science and technology, materials science and basic science of other engineering and technology, sales of ecological environmental materials, environmental technology promotion, etc.

INFORMATION OF THE COMPANY

The Company is one of the leading integrated service providers in the urban wastewater treatment and water supply industry in the PRC. Its principal operations include the investment, construction and management services in relation to urban water supply, wastewater treatment, solid waste treatment and environmental governance projects, equipment sales and other environmental protection related services.

INFORMATION OF THE TARGET COMPANY

The Target Company was incorporated in the PRC in January 2013 and 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. As at the date of this announcement, the Target Company is held as to 40%, 30% and 30% by the Company, Waytop Investment Group Limited* (匯鼎投資集團有限公司) and Xinde Investment Limited* (鑫德投資有限公司), respectively.

FINANCIAL INFORMATION OF THE TARGET COMPANY

Set out below is the key audited financial information of the Target Company for the two financial years ended 31 December 2018 and 31 December 2019 prepared according to the PRC accounting standards.

	For the years ended	
	31 December	31 December
	2018	2019
	RMB	RMB
	(audited)	(audited)
Income	691,785,072.99	947,683,172.55
Profit before tax	85,107,222.14	131,428,178.72
Profit after tax	63,030,370.04	101,621,676.48

The audited equity of owners of the Target Company as at 31 December 2019 amounted to RMB478,163,922.61. The entire equity interest of the Target Company as at 31 December 2019 as appraised by the PRC valuer amounted to RMB938,000,000. The Company holds 40% equity interest in the Target Company, which amounted to RMB375,200,000.

REASONS FOR AND BENEFITS OF THE DISPOSAL AND USE OF PROCEEDS

Based on the strategic development and the internal management needs of the Company, the Company decides to proceed the Disposal.

The Sale Shares (40% interest in the Target Company owned by the Company as of the date of this announcement) were acquired by the Company through interest acquisition and subscription of shares on 27 January 2019. The cost price of the Sale Shares is RMB320,000,000 and the Consideration of the Disposal is RMB375,200,000, representing a premium of approximately 17.25% over the cost price of the Sale Shares.

The Directors (including independent non-executive Directors) are of the view that the Disposal and the transactions contemplated thereunder will be on normal commercial terms which are fair and reasonable and in the interest of the Company and the Shareholders as a whole and that the Disposal is not expected to affect the Company's daily operations.

Proceeds from the Disposal will be used to replenish the Group's working capital.

Financial Effect of the Disposal

As at the date of this announcement, the Target Company has been accounted for as an associate, and its financial results, assets and liabilities have not been consolidated in the accounts of the Group. Following the completion of the Disposal, the Target Company will no longer be determined as an associate of the Company, but a financial asset available for sale of the Company.

Based on the cost price of the Sale Shares of approximately RMB320,000,000 and the Consideration of the Disposal, it is estimated that the Group will record gains of approximately RMB55,200,000 from the Disposal.

Please note that the actual gains recorded by the Group from the Disposal will be subject to the target book value accounted for in the financial statements of the Group upon the Completion of the Disposal, and may therefore be different from the above amount.

LISTING RULES IMPLICATION

Since one or more of the applicable percentage ratios in respect of the Disposal exceed(s) 25% but is/are below 75%, the Disposal will constitute a major transaction of the Company and is therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

GENERAL

A circular containing, among other things, (i) further information about the Disposal; and (ii) other disclosable information under the Listing Rules will be despatched of the Company to the Shareholders in accordance with the Listing Rules and relevant requirements under the Articles of Association before 18 October 2020.

The Disposal may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

DEFINITIONS

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

- “Articles of Association” the articles of association of the Company;
- “Board” the board of Directors of the Company;

“Circular”	a circular of the Company containing, among other things, information relating to the Disposal;
“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.HK);
“Consideration”	the consideration in the sum of RMB375,200,000 payable by Dingrong Environmental Protection to the Company in relation to the Disposal;
“Director(s)”	the director(s) of the Company;
“Dingrong Environmental Protection”	Fuzhou Dingrong Environmental Protection Technology Co., Ltd.* (福州市鼎榕環保科技有限公司), a limited liability company incorporated in the PRC and the purchaser under the Equity Transaction Agreement and the Supplemental Agreement to the Equity Transaction Agreement;
“Disposal”	the disposal of the Sale Shares by the Company to Dingrong Environmental Protection in accordance with the terms and conditions of the Equity Transaction Agreement and the Supplemental Agreement to the Equity Transaction Agreement;
“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 Transaction Agreement”	the sale and purchase agreement dated 29 September 2020 entered into between the Company and Dingrong Environmental Protection in relation to the Disposal;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“H Share(s)”	the overseas listed foreign-invested ordinary shares of the Company with a 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.HK) and subscribed for and traded in Hong Kong dollars;
“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;
“Sale Shares”	40% interest in the Target Company legally and beneficially owned by the Company;
“Share(s)”	the Domestic Shares and/or H Shares;
“Shareholder(s)”	the holder(s) of Share(s);
“Supplemental Agreement to the Equity Transaction Agreement”	the supplemental agreement dated 29 September 2020 entered into between the Company and Dingrong Environmental Protection in accordance with the terms of the Equity Transaction Agreement, for the purpose of further specifying certain terms under the Equity Transaction Agreement;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Target Company”	Fujian Dongfei Environment Group Co., Ltd* (福建東飛環境集團有限公司), a limited liability company incorporated in the PRC, 40% interest in which is held by the Company as at the date of this announcement;
“YNEX”	Yunnan Equity Exchange, an institution authorized by Yunnan State-owned Assets Supervision and Administration Commission to conduct asset and equity transactions of state-owned enterprises under the jurisdiction of People’s Government of Yunnan Province; and
“%”	percentage.

On behalf of the Board
Yunnan Water Investment Co., Limited*
Li Jialong
Chairman

Kunming, the PRC
29 September 2020

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

* For identification purposes only