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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)

(1) CONNECTED TRANSACTION: PARENT GUARANTEE AND GUARANTEE FEE

(2) CONNECTED AND MAJOR TRANSACTION: EQUITY PLEDGE

**Independent Financial Adviser to the
Independent Board Committee and the Independent Shareholders**



Pursuant to the Entrusted Loan Contract, the Lender has granted the Loan in the principal amount up to RMB500,000,000 to the Company for a period of 12 months commencing on the date of the Entrusted Loan Contract subject to renewal for an extended period. For the purposes of the provision of the Loan by the Lender to the Company, the Entrusted Fund was entrusted with the Lender by the Bank pursuant to the Entrusted Fund Contract.

In connection with the Entrusted Loan Contract, Yunnan Investment Group entered into the Guarantee Agreement in favour of the Lender to guarantee the repayment obligations of the Company under the Entrusted Loan Contract.

As part of the Counter Guarantee, on 11 December 2020 (after trading hours), the Company and Yunnan Investment Group entered into the Equity Pledge Agreement, pursuant to which, the Company (as pledger) has agreed to pledge its entire equity interest in Yunnan Solid Waste to Yunnan Investment Group (as pledgee) to secure the Parent Guarantee provided by Yunnan Investment Group in favour of the Lender pursuant to the Guarantee Agreement. On the same day, in consideration for the Parent Guarantee, the Company and Yunnan Investment Group entered into the Guarantee Fee Agreement, pursuant to which the Company shall pay an annual guarantee fee calculated at 1% per annum based on the actual drawdown amount of the Loan under the Entrusted Loan Contract for the relevant year to Yunnan Investment Group as part of the Counter Guarantee.

* For identification purposes only

Yunnan Investment Group is the controlling shareholder of YHTH, and hence a connected person of the Company under Rule 14A.07 of the Listing Rules. The provision of the Parent Guarantee constituted a connected transaction in the form of financial assistance in favour of the Company. However, in the absence of the Equity Pledge, as the Parent Guarantee is not secured by any assets of the Group, and as the Directors consider that the Guarantee Agreement is entered into on normal commercial terms or better, the Parent Guarantee is fully-exempted from the independent shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.90 of the Listing Rules. Nonetheless, upon completion of the Equity Pledge Agreement, the Parent Guarantee will be secured by the Equity Pledge and the exemption under Rule 14A.90 of the Listing Rules shall no longer be applicable. The provision of the Equity Pledge under the Equity Pledge Agreement and the payment of the Guarantee Fee under the Guarantee Fee Agreement comprising the Counter Guarantee constitute connected transactions in the form of financial assistance provided by the Company in favour of Yunnan Investment Group. As such, the Guarantee Agreement, the Equity Pledge Agreement, the Guarantee Fee Agreement and the transactions contemplated thereunder constitute connected transactions under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios calculated with reference to Rule 14.07 of the Listing Rules in respect of the Parent Guarantee and the Equity Pledge provided pursuant to the Guarantee Agreement and the Equity Pledge Agreement, respectively, and the payment of the Guarantee Fee pursuant to the Guarantee Fee Agreements exceed 5%, the Guarantee Agreement, the Equity Pledge Agreement, the Guarantee Fee Agreement and the transactions contemplated thereunder is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, as one of the applicable percentage ratios calculated with reference to Rule 14.07 of the Listing Rules in respect of the Equity Pledge, are exceeds 25% but is less than 75%, the Equity Pledge constitutes a major transaction of the Company under Chapter 14 of the Listing Rules, and the Equity Pledge Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

On 3 September 2020, the Board approved the provision of the Parent Guarantee and the Counter Guarantee and to convene the EGM to seek the Independent Shareholders' approval on the Parent Guarantee and the Counter Guarantee. YHTH and its associates will abstain from voting at the EGM in respect of the ordinary resolutions in respect of the Parent Guarantee and the Counter Guarantee.

A circular containing, among other things, details of the provision of the Parent Guarantee and the Counter Guarantee, the letter from the Independent Board Committee to the Independent Shareholders and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, will be dispatched to the Shareholders on or around 31 December 2020.

INTRODUCTION

Pursuant to the Entrusted Loan Contract, the Lender has granted the Loan in the principal amount up to RMB500,000,000 to the Company for a period of 12 months commencing on the date of the Entrusted Loan Contract subject to renewal for an extended period. For the purposes of the provision of the Loan by the Lender to the Company, the Entrusted Fund was entrusted with the Lender by the Bank pursuant to the Entrusted Fund Contract.

In connection with the Entrusted Loan Contract, Yunnan Investment Group entered into the Guarantee Agreement in favour of the Lender to guarantee the repayment obligations of the Company under the Entrusted Loan Contract.

As part of the Counter Guarantee, on 11 December 2020 (after trading hours), the Company and Yunnan Investment Group entered into the Equity Pledge Agreement, pursuant to which, the Company (as pledger) has agreed to pledge its entire equity interest in Yunnan Solid Waste to Yunnan Investment Group (as pledgee) to secure the Parent Guarantee provided by Yunnan Investment Group in favour of the Lender pursuant to the Guarantee Agreement. On the same day, in consideration for the Parent Guarantee, the Company and Yunnan Investment Group entered into the Guarantee Fee Agreement, pursuant to which the Company shall pay an annual guarantee fee calculated at 1.0% per annum based on the actual drawdown amount of the Loan under the Entrusted Loan Contract for the relevant year to Yunnan Investment Group as part of the Counter Guarantee.

THE GUARANTEE AGREEMENT

The salient terms of the Guarantee Agreement are summarised as follows:

Date : 11 December 2020

Parties : (i) The Lender (as beneficiary); and
(ii) Yunnan Investment Group (as guarantor)

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Lender and its ultimate beneficial owners are Independent Third Parties.

- Obligations under the Parent Guarantee** : Yunnan Investment Group, as guarantor, shall be responsible for any shortfall between (i) the expected distributable trust interests entitled by the Bank, as settlor and beneficiary, under the Entrusted Fund Contract (including but not limited to the remaining portion of the Entrusted Fund which is yet to be distributed/administered by the Lender, the relevant tax expenses, trust fees and expected trust gains due and payable) as at any distribution date on which the Trust is subsisting, and (ii) the principal amount of the Loan drawn down, any interests thereon and any liquidated damages due and payable under the Entrusted Loan Contract (the “**Shortfall Payment**”). As part of the Parent Guarantee, all the beneficial interests entitled by the Bank under the Entrusted Fund Contract shall be assigned by the Bank to Yunnan Investment Group at a consideration as determined in accordance with the terms of the Guarantee Agreement (the “**Consideration**”) on the first anniversary of the establishment of the Trust, and Yunnan Investment Group shall then be subrogated to all the rights and obligations originally entitled by the Bank under the Entrusted Fund Contract.
- Security** : The Equity Pledge
- Term** : From the date of the Guarantee Agreement to the date on which the Trust is terminated

THE EQUITY PLEDGE AGREEMENT

The salient terms of the Equity Pledge Agreement are summarised as follows:

- Date** : 11 December 2020
- Parties** : (i) Yunnan Investment Group (as pledgee); and
(ii) The Company (as pledger)
- Subject Matter of the Equity Pledge** : The entire equity interest of Yunnan Solid Waste (with the corresponding registered capital of RMB535,710,000) and all legal rights attached thereto held by the Company
- Obligations under the Equity Pledge** : In consideration of the provision of the Parent Guarantee by Yunnan Investment Group to the Lender, the Company shall provide the Equity Pledge to secure the liability (i) within the scope of the Equity Pledge under the Equity Pledge Agreement, and (ii) arising from any claims brought against Yunnan Investment Group pursuant to the Guarantee Agreement by the Lender prior to the due date of repayment of the drawn portion of the Loan by the Company under the Entrusted Loan Contract.

- Scope of the Equity Pledge** : The Company has agreed to secure the fees incurred, including but not limited to those incurred under the Guarantee Agreement by Yunnan Investment Group:
- (i) all payments payable by Yunnan Investment Group to the Lender pursuant to the Guarantee Agreement, including but not limited to the Shortfall Payment, the Consideration, interests thereon, penalty interests, compound interests, liquidated damages and all other relevant expenses; and
 - (ii) all expenses incurred by Yunnan Investment Group in exercising its rights to any claims as a creditor and the Equity Pledge under the Equity Pledge Agreement, including but not limited to litigation fees, legal fees, delivery fees and travel expenses, etc.
- Condition** : The Equity Pledge takes effect upon the completion of registration with the relevant PRC government authorities in accordance with the relevant PRC laws and regulations and the terms of the Equity Pledge Agreement. Pursuant to the Listing Rules, the Equity Pledge Agreement is subject to the Independent Shareholders' approval. The Equity Pledge Agreement will be entered into after such approval is obtained.
- Term** : From the date of the Equity Pledge Agreement to the end of the statutory limitation period as prescribed by the applicable PRC laws within which a claim under the Entrusted Loan Contract and the Guarantee Agreement must be brought. In the event that the Lender ceases to grant the undrawn portion of the Loan or demands for an early repayment of the Loan that has been drawn down, the obligations of the Company under the Equity Pledge Agreement shall be released accordingly.

THE GUARANTEE FEE AGREEMENT

The salient terms of the Guarantee Fee Agreement are summarised as follows:

- Date** : 11 December 2020
- Parties** : (i) The Company; and
(ii) Yunnan Investment Group
- Guarantee fee** : Calculated at 1.0% per annum based on the actual drawdown amount of the Loan under the Entrusted Loan Contract for the relevant year

- Payment** : Payable on an annual basis in arrears within 5 business days from the day of drawing down the relevant portion of the Loan by the Company to Yunnan Investment Group
- Liquidated damages** : Calculated at 0.05% per day based on the outstanding Guarantee Fee due and payable until all such outstanding amount has been fully settled
- Term** : From the date of the Guarantee Fee Agreement to the date when the Company has fully performed its contractual obligations under the Entrusted Loan Contract, and the Company shall notify Yunnan Investment Group of the full performance of obligations under the Entrusted Loan Contract in writing within 5 business days

INFORMATION ON PARTIES INVOLVED

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 Yunnan Investment Group

Yunnan Investment Group is a company established in the PRC with limited liability and is primarily engaged in basic industry, infrastructure, competitive industry projects in Yunnan Province, and investment in key projects of various departments of the State Council of the PRC in Yunnan Province, etc.. As at the date of this announcement, Yunnan Investment Group holds approximately 50.59% of YHTH, one of the controlling shareholders of the Company.

REASONS FOR AND BENEFITS OF THE PARENT GUARANTEE AND THE COUNTER GUARANTEE

In view of the long-standing credibility and the established business operation of Yunnan Investment Group, the Lender has requested Yunnan Investment Group to provide the Parent Guarantee for the Loan for the purposes of enhancing the Group's working capital for the strategic development and internal management needs of the Group. Yunnan Investment Group has on the other hand provided the Parent Guarantee to facilitate the grant of the Loan to the Company. In return, the Company has therefore provided the Counter Guarantee in consideration for the Parent Guarantee provided by Yunnan Investment Group.

In view of the above, the Directors (excluding the independent non-executive Directors whose views will be set out in the circular to be despatched to the Shareholders after having considered the advice of the Independent Financial Adviser) are of the view that the provision of the Parent Guarantee and the Counter Guarantee will be on normal commercial terms which are fair and reasonable and in the interest of the Company and the Shareholders as a whole. As none of the Directors has any material interest in the Guarantee Agreement, the Equity Pledge Agreement, the Guarantee Fee Agreement and the transactions contemplated thereunder, no Director was required to abstain from voting on the relevant resolutions of the Board.

IMPLICATIONS UNDER THE LISTING RULES

Yunnan Investment Group is the controlling shareholder of YHTH, and hence a connected person of the Company under Rule 14A.07 of the Listing Rules. The provision of the Parent Guarantee constituted a connected transaction in the form of financial assistance in favour of the Company. However, in the absence of the Equity Pledge, as the Parent Guarantee is not secured by any assets of the Group, and as the Directors consider that the Guarantee Agreement is entered into on normal commercial terms or better, the Parent Guarantee is fully-exempted from the independent shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.90 of the Listing Rules. Nonetheless, upon completion of the Equity Pledge Agreement, the Parent Guarantee will be secured by the Equity Pledge and the exemption under Rule 14A.90 of the Listing Rules shall no longer be applicable. The provision of the Equity Pledge under the Equity Pledge Agreement and the payment of the Guarantee Fee under the Guarantee Fee Agreement comprising the Counter Guarantee constitute connected transactions in the form of financial assistance provided by the Company in favour of Yunnan Investment Group. As such, the Guarantee Agreement, the Equity Pledge Agreement, the Guarantee Fee Agreement and the transactions contemplated thereunder constitute connected transactions under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios calculated with reference to Rule 14.07 of the Listing Rules in respect of the Parent Guarantee and the Equity Pledge provided pursuant to the Guarantee Agreement and the Equity Pledge Agreement, respectively, and the payment of the Guarantee Fee pursuant to the Guarantee Fee Agreements exceed 5%, the Guarantee Agreement, the Equity Pledge Agreement, the Guarantee Fee Agreement and the transactions contemplated thereunder is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, as one of the applicable percentage ratios calculated with reference to Rule 14.07 of the Listing Rules in respect of the Equity Pledge, are exceeds 25% but is less than 75%, the Equity Pledge constitutes a major transaction of the Company under Chapter 14 of the Listing Rules, and the Equity Pledge Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the independent non-executive Directors, has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders in respect of the Parent Guarantee and the Counter Guarantee.

In this regard, the Company has appointed Opus Capital as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Parent Guarantee and the Counter Guarantee.

EGM

The Independent Shareholders will consider and, if thought fit, approve the Parent Guarantee and the Counter Guarantee at the EGM.

YHTH and its associates have material interests in the Guarantee Agreement, the Equity Pledge Agreement and the Guarantee Fee Agreement and the transactions contemplated thereunder and will therefore be required to abstain from voting on the resolutions at the EGM. As at the date of this announcement, YHTH holds or controls the voting rights in respect of approximately 30.30% of the total issued Shares. Save as disclosed in this announcement, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has a material interest in the Parent Guarantee and the Counter Guarantee, therefore no other Shareholder is required to abstain from voting at the EGM for the relevant resolutions.

A circular containing, among other things, (i) further details of the Guarantee Agreement, the Equity Pledge Agreement, the Guarantee Fee Agreement and the transactions contemplated thereunder; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) other information as required under the Listing Rules; and (v) a notice convening the EGM, is expected to be despatched to the Shareholders on or around 31 December 2020.

DEFINITION

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings.

“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Bank”	Industrial Bank, Kunming Branch* (興業銀行昆明分行);
“Board of Directors” or “Board”	the board of directors of the Company;
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the laws of Hong Kong), as amended, supplemented or otherwise modified 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.HK);
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules;
“connected transaction(s)”	has the meaning ascribed thereto under the Listing Rules;
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“Counter Guarantee”	the provision of the Equity Pledge and the payment of the Guarantee Fee in consideration for the Parent Guarantee;
“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;
“EGM”	the extraordinary general meeting of the Company to consider and, if thought fit, approve, among other things, the Guarantee Agreement, the Equity Pledge Agreement, the Guarantee Fee Agreement and the transactions contemplated thereunder;
“Entrusted Fund”	the fund in the amount of RMB500,000,000 entrusted by the Bank to the Lender;
“Entrusted Fund Contract”	the entrusted fund contract (資金信託合同) entered into between the Lender and the Bank on 11 September 2020 in relation to the Entrusted Fund;

“Entrusted Loan Contract”	the renewable entrusted loan contract (可續期信託貸款合同) entered into between the Company and the Lender dated 11 September 2020;
“Equity Pledge”	the pledge of the entire equity interest in Yunnan Solid Waste by the Company to Yunnan Investment Group pursuant to the Equity Pledge Agreement;
“Equity Pledge Agreement”	the equity pledge agreement entered into between the Company and Yunnan Investment Group dated 11 December 2020;
“Group” or “we”	the Company and its subsidiaries;
“Guarantee Agreement”	the shortfall payment and transfer of trust interests agreement (差額支付與信託受益權遠期受讓協議) entered into between Yunnan Investment Group and the Lender dated 11 September 2020;
“Guarantee Fee”	the annual guarantee fee payable by the Company to Yunnan Investment Group pursuant to the Guarantee Fee Agreement;
“Guarantee Fee Agreement”	the fee agreement in respect of the shortfall payment and transfer of trust interests (差額支付與信託受益權遠期受讓收費協議) entered into between the Company and Yunnan Investment Group dated 11 December 2020;
“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;
“Independent Board Committee”	a committee of the Board of Directors which is set up for the purpose of advising the Independent Shareholders on the Parent Guarantee and the Counter Guarantee, including all the independent non-executive Directors, namely Mr. Liu Shuen Kong, Mr. Zhong Wei and Mr. Zhou Beihai;
“Independent Financial Adviser” or “Opus Capital”	Opus Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Parent Guarantee and the Counter Guarantee;

“Independent Shareholders”	the Shareholders other than YHTH and its associates;
“Independent Third Party(ies)”	the party(ies) not connected with any of the supervisors, chief executive or substantial shareholder of the Company or of any of its subsidiaries or their respective associates;
“Lender”	Yunnan International Trust Co., Ltd.* (雲南國際信託有限公司);
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time;
“Loan”	the loan facility in the principal amount of up to RMB500,000,000 granted by the Lender to the Company pursuant to the Entrusted Loan Contract;
“Parent Guarantee”	the guarantee provided by Yunnan Investment Group in favour of the Lender pursuant to the Guarantee Agreement;
“PRC” or “the People’s Republic of China”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administration Region of the PRC and Taiwan;
“RMB”	the lawful currency of the PRC;
“Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Share(s)”	the Domestic Shares and/or H Shares;
“Shareholder(s)”	the holder(s) of the Shares;
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in section 15 of the Companies Ordinance;
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Trust”	the unit trust established by the Bank, as settlor and beneficiary, and the Lender, as trustee, under the Entrusted Fund Contract;

“YHTH”	Yunnan Health & Cultural Tourism Holding Group Co., Ltd.* (雲南省康旅控股集團有限公司) (formerly known as Yunnan Metropolitan Construction Investment Group Co., Ltd.* (雲南省城市建設投資集團有限公司)), a limited liability company established in the PRC, one of the controlling shareholders of the Company which is held as to approximately 50.59% by Yunnan Investment Group;
“Yunnan Investment Group”	Yunnan Investment Holding Group Co., Ltd.*(雲南省投資控股集團有限公司), a limited liability company established in the PRC;
“Yunnan Solid Waste”	Yunnan Solid Waste Treatment Investment Co., Ltd.* (雲南固廢投資有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company; and
“%”	per cent.

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

Kunming, the PRC
11 December 2020

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. Li Jialong (Chairman), Ms. Li Bo, Mr. Dai Richeng and Mr. Chen Yong, and the independent non-executive Directors are Mr. Liu Shuen Kong, Mr. Zhong Wei and Mr. Zhou Beihai.

* *For identification purposes only*