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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 TRANSACTIONS

IN RELATION TO

- (1) BOCOM FINANCE LEASE AGREEMENT;**
 - (2) ABC FINANCE LEASE AGREEMENT; AND**
 - (3) CITIC FINANCE LEASE AGREEMENT**
-

* *For identification purposes only*

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“25 Management Shareholders”	Yang Fang, Hu Shake, Zhao Peng, Luo Yuxuan, Chen Xiangwen, Li Junfeng, Zhang Ruliang, Gui Hao, Huang Yi, Mi Shiyun, Luo Hongyan, Zhou Zhimi, Mo Cunyan, Chen Nianjuan, Yang Chuanyun, Liu Nanjiao, Li Guoqiang, Ma Dongjun, Xu Qiang, Dai Shaobo, Shi Jiayong, Que Yunlei, Hong Fang, Song Chunxia and Li Bo
“ABC Finance Lease Agreement”	the finance lease agreement dated 9 December 2020 between ABC Financial Leasing and Kaifa Xinquan (Tiantai), pursuant to which Kaifa Xinquan (Tiantai) agreed to sell the ABC Leased Assets to ABC Financial Leasing at the consideration of RMB110,000,000 and ABC Financial Leasing agreed to leaseback the ABC Leased Assets to Kaifa Xinquan (Tiantai) during the ABC Lease Term
“ABC Financial Leasing”	ABC Financial Leasing Co., Ltd.* (農銀金融租賃有限公司), a company established in the PRC with limited liability, being the lessor under the ABC Finance Lease Agreement
“ABC Lease Term”	the lease term of eight years under the ABC Finance Lease Agreement
“ABC Leased Assets”	certain sewer pipe networks owned by Kaifa Xinquan (Tiantai), which will be sold by Kaifa Xinquan (Tiantai) to ABC Financial Leasing and shall be leased back to Kaifa Xinquan (Tiantai) according to the ABC Finance Lease Agreement
“Articles of Association”	the articles of association of the Company
“Beijing OriginWater”	Beijing OriginWater Technology Co., Ltd.* (北京碧水源科技股份有限公司), a limited liability company established in the PRC, the shares of which are listed on Shenzhen Stock Exchange (stock code: 300070)
“Board”	the board of Directors of the Company
“BoCom Finance Lease Agreement”	the finance lease agreement dated 9 December 2020 between BoCom Leasing and Dali Water, pursuant to which Dali Water agreed to sell the BoCom Leased Assets to BoCom Leasing at the consideration of RMB60,000,000 and BoCom Leasing agreed to leaseback the BoCom Leased Assets to Dali Water during the BoCom Lease Term
“BoCom Leased Assets”	water supply and drainage pipeline network facilities in Dali City owned by Dali Water, which will be sold by Dali Water to BoCom Leasing and shall be leased back to Dali Water according to the BoCom Finance Lease Agreement
“BoCom Lease Term”	the lease term of 60 months under the BoCom Finance Lease Agreement
“BoCom Leasing”	Bank of Communications Financial Leasing Co., Ltd., a company established in the PRC with limited liability, which is the lessor under the BoCom Finance Lease Agreement

DEFINITIONS

“Caiyun International”	Caiyun International Investment Limited (彩雲國際投資有限公司), a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of YHTH
“CITIC Finance Lease Agreement”	the finance lease agreement dated 9 December 2020 between CITIC Financial Leasing and Qinggeda Yunshui, pursuant to which Qinggeda Yunshui agreed to sell the CITIC Leased Assets to CITIC Financial Leasing at a consideration of RMB90,000,000 and CITIC Financial Leasing agreed to lease back the CITIC Leased Assets to Qinggeda Yunshui during the CITIC Lease Term
“CITIC Financial Leasing”	CITIC Financial Leasing Co., Ltd.* (中信金融租賃有限公司), a company established in the PRC with limited liability, being the lessor under the CITIC Finance Lease Agreement
“CITIC Leased Assets”	equipment and facilities of Longhe Wastewater Treatment Plant* (龍河污水處理廠) owned by Qinggeda Yunshui, which will be sold by Qinggeda Yunshui to CITIC Financial Leasing and shall be leased back to Qinggeda Yunshui according to the CITIC Finance Lease Agreement
“CITIC Lease Term”	the lease term of five years under the CITIC Finance Lease Agreement
“Closely Allied Group”	the closely allied group of Shareholders comprising (i) Yunnan Province Water with its acting in concert parties (Mr. Liu Xujun, Mr. Huang Yunjian and Mr. Wang Yong); (ii) Beijing OriginWater; and (iii) Caiyun International, which collectively holds 656,586,162 Shares, representing approximately 55.03% of the total number of Shares in issue of the Company as at the Latest Practicable Date
“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)
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“COVID-19”	novel coronavirus (COVID-19), a coronavirus disease which has its outbreak in the PRC, Hong Kong and worldwide since around January 2020
“Dali Water”	Dali Water Investment Co. Ltd.* (大理水務產業投資有限公司), a company established in the PRC with limited liability, a controlling subsidiary owned by the Company as to 40.27%, which is the lessee under the BoCom Finance Lease Agreement
“Director(s)”	the director(s) of the Company

DEFINITIONS

“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
“First ABC Finance Lease Agreement”	the finance lease agreement dated 20 February 2020 between Sanming Jinliya and ABC Financial Leasing
“First BoCom Finance Lease Agreement”	the finance lease agreement dated 20 September 2020 between HLJ Yunshui and BoCom Leasing
“First CITIC Finance Lease Agreement”	the finance lease agreement dated 24 April 2020 between Kelamayi Haorui and CITIC Financial Leasing
“Group”	the Company and its subsidiaries
“HLJ Yunshui”	HLJ Yunshui Environmental Technology Services Co., Ltd, a company established in the PRC with limited liability, a subsidiary indirectly owned by the Company as to 99%, which is the lessee under the First BoCom Finance Lease Agreement
“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 Third Party(ies)”	third party(ies) who are independent of and are not connected with the Company and its connected persons (as defined in the Listing Rules)
“Kaifa Xinquan (Tiantai)”	Kaifa Xinquan Water (Tiantai) Co., Ltd* (凱發新泉水務(天台)有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Kelamayi Haorui”	Kelamayi Haorui Water Co., Ltd.* (克拉瑪依浩瑞水務有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
“Latest Practicable Date”	16 December 2020
“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 circular only, excluding Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Qinggeda Yunshui”	Xinjiang Qinggeda Yunshui Environmental Industry Investment and Development Co., Ltd.* (新疆青格達雲水環保投資有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company

DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC
“Sanming Jinliya”	Sanming Jinliya Environmental Protection Technological Investment Co., Ltd.* (三 明 市 金 利 亞 環 保 科 技 投 資 有 限 公 司), a company established in the PRC with limited liability and a subsidiary owned by the Company as to 100%
“Second BoCom Finance Lease Agreement”	the finance lease agreement dated 27 November 2020 between Dali Water and BoCom Leasing
“Second CITIC Finance Lease Agreement”	the finance lease agreement dated 12 June 2020 between Qinggeda Yunshui and CITIC Financial Leasing
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the Domestic Shares and/or H Shares
“Shareholder(s)”	the holder(s) of Share(s)
“Supervisor(s)”	supervisor(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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 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 and is the sole shareholder of Yunnan Province Water and one of the controlling shareholders of the Company
“Yunnan Province Water”	雲 南 省 水 務 產 業 投 資 有 限 公 司 (Yunnan Province Water Industry Investment Co., Ltd.*), a limited liability company established in the PRC, which is one of the controlling shareholders of the Company
“%”	per cent

* For identification purposes only

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Yu Long (*Vice chairman*)

Mr. Yang Fang

Non-executive Directors:

Mr. Li Jialong (*Chairman*)

Mr. Dai Richeng

Ms. Li Bo

Mr. Chen Yong

Independent Non-executive Directors:

Mr. Liu Shuen Kong

Mr. Zhong Wei

Mr. Zhou Beihai

**Registered office and principal place
of business in the PRC:**

Yunnan Water
2089 Haiyuan Bei Road
Gaoxin District
Kunming, Yunnan
PRC

Principal place of business in Hong Kong:

Suites 3110–11, 31/F, Tower 1
The Gateway, Harbour City
25 Canton Road, Tsim Sha Tsui, Kowloon
Hong Kong

23 December 2020

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTIONS
IN RELATION TO
(1) BOCOM FINANCE LEASE AGREEMENT;
(2) ABC FINANCE LEASE AGREEMENT; AND
(3) CITIC FINANCE LEASE AGREEMENT**

INTRODUCTION

References are made to the announcements of the Company dated 9 December 2020 in relation to (i) the BoCom Finance Lease Agreement; (ii) the ABC Finance Lease Agreement; and (iii) the CITIC Finance Lease Agreement.

The purposes of this circular are to provide you with, among other things, further details of (i) the BoCom Finance Lease Agreement; (ii) the ABC Finance Lease Agreement; and (iii) the CITIC Finance Lease Agreement.

LETTER FROM THE BOARD

(1) BOCOM FINANCE LEASE AGREEMENT

Reference is made to the announcement of the Company dated 9 December 2020 in relation to the BoCom Finance Lease Agreement entered into between Dali Water and BoCom Leasing, pursuant to which, BoCom Leasing has agreed to, among other things, (i) acquire the BoCom Leased Assets from Dali Water at a consideration of RMB60,000,000 and (ii) lease back the BoCom Leased Assets to the Dali Water with the BoCom Lease Term for 60 months and an estimated total lease payment of RMB68,626,841.60, which will be paid by Dali Water to BoCom Leasing in 20 equal installments. The principal terms of the BoCom Finance Lease Agreement are summarized as follows:

Date: 9 December 2020 (after trading hours)

Parties: (i) Dali Water (as the lessee); and
(ii) BoCom Leasing (as the lessor)

The Leased Assets

The Leased Assets are water supply and drainage pipeline network facilities in Dali City owned by Dali Water according to the BoCom Finance Lease Agreement.

Sale of the BoCom Leased Assets to BoCom Leasing

Pursuant to the BoCom Finance Lease Agreement, Dali Water agreed to sell and BoCom Leasing agreed to purchase the BoCom Leased Assets at the consideration of RMB60,000,000, which was determined after arm's length negotiation between the parties with reference to the valuation of the BoCom Leased Assets by a third-party valuation institution, and shall be paid by BoCom Leasing to the bank account designated by Dali Water within ten working days after satisfaction of all the conditions precedent to payment.

Conditions precedent

1. BoCom Leasing and Dali Water have signed the BoCom Finance Lease Agreement and all relevant agreements, including the guarantee agreement (if any) and the earnest money agreement (if any) thereunder;
2. BoCom Leasing and Dali Water have completed the registration procedures for mortgage and pledge, if any;
3. BoCom Leasing and Dali Water have completed the procedures for registration and transfer of ownership, if any, of the BoCom Leased Assets, as well as the procedures for registration of publicity for the BoCom Leased Assets;
4. Dali Water has submitted the ownership information relating to the BoCom Leased Assets to BoCom Leasing;
5. Other conditions agreed in the BoCom Finance Lease Agreement.

LETTER FROM THE BOARD

The BoCom Finance Lease Agreement is subject to approval by the Shareholders in accordance with the requirements of the Listing Rules. As no Shareholder is interested in the transaction and is required to abstain from voting if the Company were to convene a general meeting to approve the BoCom Finance Lease Agreement, the Company has approved the BoCom Finance Lease Agreement by the written approval of the Closely Allied Group (which collectively holds 656,586,162 Shares, representing approximately 55.03% of the total number of Shares in issue as at the date of the Finance Lease Agreement), pursuant to Rule 14.44 of the Listing Rules.

Earnest money

Dali Water shall pay an earnest money of RMB3,000,000 to BoCom Leasing in accordance with the BoCom Finance Lease Agreement before payment of the consideration for transfer of the BoCom Leased Assets by BoCom Leasing. The earnest money can also be deducted from payment of the consideration for transfer of the BoCom Leased Assets by BoCom Leasing, and Dali Water shall complete corresponding procedures. If Dali Water fully performs the BoCom Finance Lease Agreement, it can recover the earnest money from BoCom Leasing by presenting the earnest money certificate upon expiration of the BoCom Lease Term.

Transfer and delivery of the BoCom Leased Assets

BoCom Leasing shall obtain the ownership of the BoCom Leased Assets upon payment of the consideration for transfer of the BoCom Leased Assets as agreed in the Finance Lease Agreement. Where BoCom Leasing and Dali Water shall not conduct any delivery procedure of the BoCom Leased Assets, and once BoCom Leasing pays the consideration for transfer of the BoCom Leased Assets, Dali Water shall be deemed to have accepted and checked the BoCom Leased Assets.

Leaseback of the BoCom Leased Assets to Dali Water

Pursuant to the BoCom Finance Lease Agreement, the BoCom Leased Assets shall be leased back to Dali Water during the BoCom Lease Term at the estimated total lease payment of approximately RMB68,626,841.60, which comprises of (i) the amount of the lease principal in the sum of RMB60,000,000; (ii) the total interest of approximately RMB8,646,841.60 calculated at the floating annual lease interest rate. The first annual lease interest rate is 5.26% (i.e. the LPR for over five-year period published on 20 October 2020 plus 61 basis points). The annual lease interest rate is subject to adjustment annually commencing from the date of payment of rental for every 12 months from the lease inception date during the Lease Term, and calculated at the arithmetic average of the LPR (which is rounded to four decimal places) applicable to the Finance Lease Agreement within six months before the adjustment date plus 61 basis points. The Lease Term of the Finance Lease Agreement is 60 months in total, which are divided into 20 three-month tenancies commencing from the lease inception date.

Disposal of the BoCom Leased Assets

Upon expiration of the BoCom Finance Lease Agreement, Dali Water is entitled to choose to purchase the BoCom Leased Assets. Once Dali Water has paid up rentals and other amounts (including possible liquidated damages, compensation, etc.), the BoCom Leased Assets under the BoCom Finance Lease Agreement may be purchased by Dali Water at a nominal price of RMB1. The nominal price and the last installment of rental shall be paid simultaneously. Following payment by Dali Water, BoCom Leasing shall issue a transfer form of ownership of the BoCom Leased Assets to Dali Water. If the Dali Water does not make a choice or fails to make all the payments including rentals, the nominal price, etc. as stipulated in the BoCom Finance Lease Agreement, BoCom Leasing has the right to recover the BoCom Leased Assets.

LETTER FROM THE BOARD

Reasons for and benefits of entering into the BoCom Finance Lease Agreement

The terms of the BoCom Finance Lease Agreement are determined after arm's length negotiation with reference to the average fair market price of the similar assets and the prevailing market interest rates and trading terms of finance lease agreements of similar assets. The Directors are of the opinion that the Group will be able to supplement its working capital through the BoCom Finance Lease Agreement, the terms and conditions of which are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

Information about the parties to the BoCom Finance Lease Agreement

Dali Water is a company incorporated in the PRC and a subsidiary directly owned by the Company as to 40.27% and is accounted for as a subsidiary of the Company. It is principally engaged in tap water production and supply, construction of water supply and drainage facilities, development and utilization of water products and wastewater treatment, etc.

BoCom Leasing is a company incorporated in the PRC with limited liability and is principally engaged in financial leasing business and financial services in the PRC. The controlling shareholder of BoCom Leasing is Bank of Communications Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 601328) and on the Hong Kong Stock Exchange (stock code: 3328). The de facto controller of BoCom Leasing is the Ministry of Finance of the PRC. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, BoCom Leasing and its ultimate beneficial owner (if applicable) are third parties independent from the Company and its connected persons (as defined in the Listing Rules).

(2) ABC FINANCE LEASE AGREEMENT

Reference is made to the announcement of the Company dated 9 December 2020 in relation to the ABC Finance Lease Agreement entered into between Kaifa Xinquan (Tiantai) and ABC Financial Leasing, pursuant to which, ABC Financial Leasing has agreed to, among other things, (i) acquire the ABC Leased Assets from Kaifa Xinquan (Tiantai) at a consideration of RMB110,000,000, which will be paid to Kaifa Xinquan (Tiantai) by instalments and (ii) lease back the ABC Leased Assets to Kaifa Xinquan (Tiantai) with the ABC Lease Term for 10 years and a total lease payment of approximately RMB140,458,006.37, the principal and interest of which will be paid by Kaifa Xinquan (Tiantai) to ABC Financial Leasing in 20 equal installments. The principal terms of the BoCom Finance Lease Agreement are summarized as follows:

- Date:** 9 December 2020 (after trading hours)
- Parties:** (i) Kaifa Xinquan (Tiantai) (as the lessee); and
- (ii) ABC Financial Leasing (as the lessor)

Sale of the ABC Leased Assets to ABC Financial Leasing

Pursuant to the ABC Finance Lease Agreement, Kaifa Xinquan (Tiantai) has agreed to sell and ABC Financial Leasing has agreed to purchase the ABC Leased Assets at a consideration of RMB110,000,000, which was determined after arm's length negotiation between the parties with reference to the valuation of the ABC Leased Assets by a third party valuation institution, and shall be paid by instalments to Kaifa Xinquan (Tiantai) within ten working days after receiving the written notice of payment from Kaifa Xinquan (Tiantai).

LETTER FROM THE BOARD

Conditions precedent

The conditions precedent to the ABC Finance Lease Agreement are set out below:

1. ABC Financial Leasing has received the acquisition certificate for the ABC Leased Assets, copies of original purchase invoices affixed with the official seal of Kaifa Xinquan (Tiantai), or copies of other necessary basic information and documents affixed with official seal which ABC Financial Leasing considers necessary to prove that Kaifa Xinquan (Tiantai) possesses complete ownership of the ABC Leased Assets submitted by Kaifa Xinquan (Tiantai);
2. Kaifa Xinquan (Tiantai) shall pay a deposit (if any) in the amount as agreed in the ABC Finance Lease Agreement;
3. ABC Financial Leasing has received other amounts (if any) payable by Kaifa Xinquan (Tiantai) to ABC Financial Leasing;
4. To achieve the goal of the ABC Finance Lease Agreement, the guarantee documents and other legal documents related to the ABC Finance Lease Agreement have been duly signed between Kaifa Xinquan (Tiantai) and ABC Financial Leasing or between ABC Financial Leasing and the third parties, and the registration procedures related to the guarantee have also been completed;
5. ABC Financial Leasing has received the authorizations for accessing to and using corporate customer information provided by Kaifa Xinquan (Tiantai) and the guarantor of Kaifa Xinquan (Tiantai);
6. Kaifa Xinquan (Tiantai) has already purchased adequate insurance for the ABC Leased Assets according to the ABC Finance Lease Agreement, and ABC Financial Leasing has received copies of valid insurance contracts affixed with the official seal of Kaifa Xinquan (Tiantai), including the above-mentioned insurance policies, the approval forms and etc;
7. Kaifa Xinquan (Tiantai) has cooperated with ABC Financial Leasing to complete the registration in respect of the ABC Leased Assets in the registration system for finance lease of Credit Reference Center of the People's Bank of China;
8. ABC Financial Leasing has received the inquiry documents or certification documents proving that the ABC Leased Assets is free from pledge;
9. There are no significant changes in the national fiscal and taxation and financial policies or the government's funding regulation measures against the financial industry as at the time when ABC Financial Leasing makes payment, comparing to those when the corresponding lease was executed, and there are no significant increase in the market financing cost; all the statements and guarantees of Kaifa Xinquan (Tiantai) under the ABC Finance Lease Agreement are true, complete and not materially misleading, and not in violation of the ABC Finance Lease Agreement; and
10. ABC Financial Leasing has received from Kaifa Xinquan (Tiantai) all the relevant examination documents as agreed in the ABC Finance Lease Agreement and all information and documents that ABC Financial Leasing considered should be provided by Kaifa Xinquan (Tiantai).

LETTER FROM THE BOARD

The ABC Finance Lease Agreement is subject to approval by the Shareholders in accordance with the requirements of the Listing Rules. As no shareholder is interested in the transaction and is required to abstain from voting if the Company were to convene a general meeting to approve the ABC Finance Lease Agreement, the Company has approved the ABC Finance Lease Agreement by the written approval of the Closely Allied Group (which collectively holds 656,586,162 Shares, representing approximately 55.03% of the total number of Shares in issue as at the date of the ABC Finance Lease Agreement), pursuant to Rule 14.44 of the Listing Rules.

Transfer and delivery of the ABC Leased Assets

Kaifa Xinquan (Tiantai) shall issue the Certificate of Ownership Transfer (to ABC Financial Leasing) to ABC Financial Leasing at the date when Kaifa Xinquan (Tiantai) receives the purchase price of the above ABC Leased Assets. If not, ABC Financial Leasing shall also have the ownership of the ABC Leased Assets.

Leaseback of the ABC Leased Assets to Kaifa Xinquan (Tiantai)

Pursuant to the ABC Finance Lease Agreement, the ABC Leased Assets shall be leased back to Kaifa Xinquan (Tiantai) during the ABC Lease Term at the total lease payment of approximately RMB140,458,006.37, which comprises of (i) the amount of the lease principal in the sum of RMB110,000,000; and (ii) the lease interest of approximately RMB30,458,006.37 calculated at the annual lease interest rate of 4.9% (being the prime rate of over 5-year loan promulgated by the National Interbank Funding Centre on the day before the lease commence date plus 25 basis points, and during the ABC Lease Term, the lease rate shall be renegotiated annually with the corresponding date of the lease commence date as the renegotiation date (if there is no corresponding date, the last day of that month shall be the corresponding date)).

The ABC Lease Term shall be 10 years, commencing from the date when ABC Financial Leasing pays the purchase price of the ABC Leased Assets to Kaifa Xinquan (Tiantai). The lease payment shall be paid by Kaifa Xinquan (Tiantai) every six months in 20 installments during the ABC Lease Term, the 20th day of the last month of each installment shall be the lease payment date for that installment, and the lease payment date for the last installment shall be termination date of the ABC Lease Term. During the ABC Lease Term, the lease rate shall be renegotiated annually with the corresponding date of the lease commence date for each year as the renegotiation date (if there is no corresponding date, the last day of that month shall be the corresponding date), and the rent shall be adjusted through calculating the lease rate based on the over 5-year LPR on the day before the renegotiation date plus 25 basis points.

Ownership of the ABC Leased Assets during and after the ABC Lease Term

The ABC Leased Assets are certain sewage pipe networks owned by Kaifa Xinquan (Tiantai). During the ABC Lease Term, the ABC Leased Assets will be owned by ABC Financial Leasing.

Upon expiry of the ABC Lease Term and subject to full payment of all the lease payment and other payables to ABC Financial Leasing by Kaifa Xinquan (Tiantai) under the ABC Finance Lease Agreement, Kaifa Xinquan (Tiantai) shall have the right to obtain the ownership of the ABC Leased Assets upon payment to ABC Financial Leasing a retention money of RMB1 on an “as-is” basis.

LETTER FROM THE BOARD

Reasons for and benefits of entering into the ABC Finance Lease Agreement

The terms of the ABC Finance Lease Agreement are determined after arm's length negotiation with reference to the average fair market price of the similar assets and the prevailing market interest rates and trading terms of finance lease agreements of similar assets. The Directors are of the opinion that the Group will be able to supplement its working capital through the ABC Finance Lease Agreement, the terms and conditions of which are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

Information about the parties to the ABC Finance Lease Agreement

Kaifa Xinquan (Tiantai) is a company incorporated in the PRC and a wholly-owned subsidiary of the Company. It is principally engaged in the design, construction, operation and management of wastewater, waste residue, waste gas treatment and environmental protection projects.

ABC Financial Leasing is a company incorporated in the PRC with limited liability and is principally engaged in financial leasing business and financial services in the PRC. The controlling shareholder of ABC Financial Leasing is Agricultural Bank of China Limited, a company listed on the Shanghai Stock Exchange (stock code: 601288.SH) and the Stock Exchange (stock code: 01288.HK). To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, ABC Financial Leasing and its ultimate beneficial owner (if applicable) are third parties independent from the Company and its connected persons (as defined in the Listing Rules).

(3) CITIC FINANCE LEASE AGREEMENT

Reference is made to the announcement of the Company dated 9 December 2020 in relation to the CITIC Finance Lease Agreement entered into between Qinggeda Yunshui and CITIC Financial Leasing, pursuant to which, CITIC Financial Leasing has agreed to, among other things, (i) acquire the CITIC Leased Assets from Qinggeda Yunshui at a consideration of RMB90,000,000, which will be paid to Qinggeda Yunshui in a lump sum and (ii) lease back the CITIC Leased Assets to Qinggeda Yunshui with the CITIC Lease Term of five years and the total lease payment is estimated to be RMB106,419,400, in which, total rents will be paid by Qinggeda Yunshui to CITIC Financial Leasing in ten equal instalments of principal. The principal terms of the CITIC Finance Lease Agreement are summarized as follows:

- Date:** 9 December 2020 (after trading hours)
- Parties:** (i) Qinggeda Yunshui (as the lessee); and
(ii) CITIC Financial Leasing (as the lessor)

Leased Assets

Pursuant to the CITIC Finance Lease Agreement, the CITIC Leased Assets are equipment and facilities of Longhe Wastewater Treatment Plant* (龍河污水處理廠) owned by Qinggeda Yunshui.

LETTER FROM THE BOARD

Sale of the CITIC Leased Assets to CITIC Financial Leasing

Pursuant to the CITIC Finance Lease Agreement, Qinggeda Yunshui has agreed to sell and CITIC Financial Leasing has agreed to purchase the CITIC Leased Assets at a consideration of RMB90,000,000, which was determined after arm's length negotiation between the parties with reference to the valuation of the CITIC Leased Assets by a third-party valuation institution and shall be paid by CITIC Financial Leasing to the bank account designated by Qinggeda Yunshui in a lump sum within 10 working days from the fulfillment of all the payment conditions precedent.

Conditions precedent

1. CITIC Financial Leasing has received the lease fees, deposits and other payables from Qinggeda Yunshui under the corresponding lease schedules;
2. CITIC Financial Leasing has received the acquisition certificate for the CITIC Leased Assets, copies of original purchase invoices endorsed and affixed with the official seals of Qinggeda Yunshui or other information and documents which CITIC Financial Leasing considers necessary to prove that Qinggeda Yunshui possesses complete ownership of and/or rights to transfer or dispose of the CITIC Leased Assets submitted by Qinggeda Yunshui, and CITIC Financial Leasing has approved the information and documents mentioned in this paragraph;
3. Qinggeda Yunshui has obtained the internal and external approvals necessary to carry out the CITIC Finance Lease Agreement, such as the relevant internal and external authorities of Qinggeda Yunshui having granted effective resolutions, authorizations or approvals regarding the finance lease under the CITIC Finance Lease Agreement, and CITIC Financial Leasing has approved the contents of such resolutions;
4. In the event that CITIC Financial Leasing requests any guarantee from any guarantor in respect of the lease, CITIC Financial Leasing has received effective resolutions (authorizations) or approvals from the relevant guarantor's internal and external authorities granting that the guarantor would provide guarantee for the finance lease under the CITIC Finance Lease Agreement;
5. At the request of CITIC Financial Leasing, the relevant guarantee documents (if any) and other legal documents of the CITIC Finance Lease Agreement have been signed, and such guarantee documents and legal documents have come into effect without any breach of contract;
6. If the guarantee provided by relevant guarantor under the CITIC Finance Lease Agreement needs to go through the registration procedures for guarantees according to laws and the relevant guarantee documents and CITIC Financial Leasing requires that the guarantee registration procedures be completed before the issue of loans, CITIC Financial Leasing has received such guarantee registration certification documents;
7. CITIC Financial Leasing has received the Transfer of Ownership and Acceptance of Leased Assets* (《所有權轉移及租賃物接受書》) signed by Qinggeda Yunshui and the Notice of Payment* (《付款通知書》) issued by Qinggeda Yunshui on the payment of the purchase price of the CITIC Leased Assets;

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8. If it is necessary to insure the CITIC Leased Assets as agreed in the lease schedules, CITIC Financial Leasing has received the relevant documents issued by Qinggeda Yunshui on the insurance of the CITIC Leased Assets, proving that Qinggeda Yunshui has purchased the insurance recognized by CITIC Financial Leasing for the CITIC Leased Assets at the request of CITIC Financial Leasing;
9. There are no significant changes in the national fiscal and taxation and financial policies or the government's funding regulation measures against the financial industry as at the time when CITIC Financial Leasing makes the payment as compared to those when the corresponding lease was executed, and there is no significant increase in the market financing costs;
10. When CITIC Financial Leasing makes the payment, there is no ongoing or unremedied breach of contract regarding any contract signed between CITIC Financial Leasing and Qinggeda Yunshui and the CITIC Finance Lease Agreement;
11. The proportion of Qinggeda Yunshui's total investment in the project where the CITIC Leased Assets belong to in the purchase price of the CITIC Leased Assets offered by CITIC Financial Leasing is not lower than the ratio as recognized by CITIC Financial Leasing;
12. Other payment terms approved by CITIC Financial Leasing have been satisfied.

The CITIC Finance Lease Agreement is subject to approval by the Shareholders in accordance with the requirements of the Listing Rules. As no Shareholder is interested in the transaction and is required to abstain from voting if the Company were to convene a general meeting to approve the CITIC Finance Lease Agreement, the Company has approved the CITIC Finance Lease Agreement by the written approval of the Closely Allied Group (which collectively holds 656,586,162 Shares, representing approximately 55.03% of the total number of Shares in issue as at the date of the CITIC Finance Lease Agreement), pursuant to Rule 14.44 of the Listing Rules.

Transfer and delivery of the CITIC Leased Assets

The CITIC Leased Assets under the CITIC Finance Lease Agreement do not undergo the actual transfer of possession, nor does CITIC Financial Leasing bear any responsibility for the delivery of the CITIC Leased Assets. Qinggeda Yunshui shall sign and submit the Transfer of Ownership and Acceptance of Leased Assets on the date of signing the CITIC Finance Lease Agreement.

Leaseback of the CITIC Leased Assets to Qinggeda Yunshui

Pursuant to the CITIC Finance Lease Agreement, the CITIC Leased Assets shall be leased back to Qinggeda Yunshui during the CITIC Lease Term at the total lease payment of approximately RMB106,419,400, which is comprised of (i) the amount of the lease principal in the sum of RMB90,000,000; (ii) the total rents of approximately RMB13,179,400 calculated at an annual lease rate of about 5.20% (the lease rate is calculated based on the tax-included floating interest rate. Specifically, the lease rate for the first instalment of rents is calculated according to the latest quoted interest rate in the loan market before the payment date of the CITIC Lease Assets' purchase price, and the lease rate for the second and subsequent instalments shall be adjusted based on the latest market quoted interest rate for over five-year-period loans published before the date of determining the lease rate, with the amount of adding points remaining unchanged during the CITIC Lease Term); and (iii) the lease fee of RMB3,240,000 (lease fee = lease costs \times 3.6%).

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The pre-lease period and the CITIC Lease Term span a total of five years starting from the payment date of the purchase price of the CITIC Leased Assets, which are divided into 10 six-month tenancies. An equal amount of principal shall be paid in arrears, and if the last payment date is later than the expiration date of the CITIC Lease Term, the last payment date will be adjusted to the expiration date of the CITIC Lease Term. If there is a need to adjust the actual starting date which has been agreed in the CITIC Finance Lease Agreement, the actual starting date shall be determined to be the date of which CITIC Financial Leasing has otherwise notifies Qinggeda Yunshui in writing.

Ownership of the CITIC Leased Assets during and after the CITIC Lease Term

The CITIC Leased Assets are equipment and facilities of Longhe Wastewater Treatment Plant owned by Qinggeda Yunshui. From the payment date of the purchase price of the CITIC Leased Assets, the ownership of the CITIC Leased Assets (such ownership is related to the subordinated property, subordinated rights and fruits) belongs to CITIC Financial Leasing. Regardless of whether the CITIC Leased Assets are registered in the name of CITIC Financial Leasing or whether Qinggeda Yunshui has delayed or has not submitted the Transfer of Ownership and Acceptance of Leased Assets, CITIC Financial Leasing is the sole legal owner of the CITIC Leased Assets.

Upon expiry of the CITIC Lease Term and subject to the payment of all the payables in respect of leases under the CITIC Finance Lease Agreement and the fulfilment of obligations under the CITIC Finance Lease Agreement by Qinggeda Yunshui without any breach of contract or in the event that Qinggeda Yunshui repays in advance as agreed in the CITIC Finance Lease Agreement, Qinggeda Yunshui shall obtain the ownership of the CITIC Leased Assets under the CITIC Finance Lease Agreement on an “as-is” basis.

Guarantee

Qinggeda Yunshui shall, at CITIC Financial Leasing’s request, provide satisfactory guarantee for its payment of rentals and other payables and for other obligations under the CITIC Finance Lease Agreement, and shall ensure that relevant guarantee documents are executed by the guarantor in accordance with CITIC Financial Leasing’s requirements. For the CITIC Finance Lease Agreement, the Company shall act as the guarantor.

During the CITIC Lease Term, in the event of invalidity of the guarantee documents, default under the guarantee documents, or loss of credibility of Qinggeda Yunshui or the guarantor, depreciation of collateral, or other events that in CITIC Financial Leasing’s belief would impair its claims or realization of the guarantee right under the CITIC Finance Lease Agreement, CITIC Financial Leasing may from time to time request Qinggeda Yunshui to provide other guarantees to supplement or replace the above-mentioned guarantees. Qinggeda Yunshui shall immediately meet these requirements or procure the relevant guarantor to do the same.

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Reasons for and benefits of entering into the CITIC Finance Lease Agreement

The terms of the CITIC Finance Lease Agreement are determined after arm's length negotiation with reference to the average fair market price of similar assets and the prevailing market interest rates and trading terms of finance lease agreements of similar assets. The Directors are of the opinion that the Group will be able to supplement its working capital through the CITIC Finance Lease Agreement, the terms and conditions of which are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

Information about the parties to the CITIC Finance Lease Agreement

Qinggeda Yunshui is a company incorporated in the PRC and is accounted for as a subsidiary of the Company as it is held as to 100% by the Company. It is mainly engaged in the wastewater treatment and reclamation, management of municipal facilities, manufacturing of environmental protection engineering facilities and environmental protection consulting and other business.

CITIC Financial Leasing is a company incorporated in the PRC with limited liability and mainly engaged in the financial leasing business and financial services in the PRC. The controlling shareholder of CITIC Financial Leasing is China CITIC Bank Corporation Limited, a company listed on the Shanghai Stock Exchange (stock code: 601998.SH) and the Stock Exchange (stock code: 00998.HK). To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, CITIC Financial Leasing and its ultimate beneficial owner (if applicable) are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

LISTING RULES IMPLICATIONS

(1) BoCom Finance Lease Agreement

On 20 September 2020, HLJ Yunshui, a non-wholly owned subsidiary of the Company, and BoCom Leasing entered into the First BoCom Finance Lease Agreement. On 27 November 2020, Dali Water and BoCom Leasing entered into the Second BoCom Finance Lease Agreement. Since the respective transactions under the First BoCom Finance Lease Agreement and the Second BoCom Finance Lease Agreement were completed within 12 months prior to the date of the BoCom Finance Lease Agreement, the transactions under the First BoCom Finance Lease Agreement and the Second BoCom Finance Lease Agreement and the transactions under the BoCom Finance Lease Agreement shall be aggregated to calculate the applicable percentage ratios according to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios of the transactions under the First BoCom Finance Lease Agreement, the Second BoCom Finance Lease Agreement and the BoCom Finance Lease Agreement on an aggregated basis are more than 25% but less than 100%, the BoCom Finance Lease Agreement constitutes 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.

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(2) ABC Finance Lease Agreement

On 20 February 2020, Sanming Jinliya, a wholly-owned subsidiary of the Company, and ABC Financial Leasing entered into the First ABC Finance Lease Agreement. Since the transactions under the First ABC Finance Lease Agreement were completed within 12 months prior to the date of the ABC Finance Lease Agreement, the transactions under the First ABC Finance Lease Agreement and the transactions under the ABC Finance Lease Agreement shall be aggregated to calculate the applicable percentage ratios according to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios of the transactions under the First ABC Finance Lease Agreement and the ABC Finance Lease Agreement on an aggregated basis are more than 25% but less than 100%, the ABC Finance Lease Agreement constitutes 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.

(3) CITIC Finance Lease Agreement

On 24 April 2020, the Company, Kelamayi Haorui and CITIC Financial Leasing entered into the First CITIC Finance Lease Agreement. On 12 June 2020, Qinggeda Yunshui and CITIC Financial Leasing entered into the Second CITIC Finance Lease Agreement. Since the respective transactions under the First CITIC Finance Lease Agreement and the Second CITIC Finance Lease Agreement were completed within 12 months prior to the date of the CITIC Finance Lease Agreement, the transactions under the First CITIC Finance Lease Agreement and the Second CITIC Finance Lease Agreement and the transactions under the CITIC Finance Lease Agreement shall be combined to calculate the applicable percentage ratios according to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios of the transactions under the First CITIC Finance Lease Agreement, the Second CITIC Finance Lease Agreement and the CITIC Finance Lease Agreement on an aggregated basis are more than 25% but less than 100%, the CITIC Finance Lease Agreement constitutes 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.

WRITTEN SHAREHOLDERS' APPROVAL

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Shareholders has material interest in each of (i) the BoCom Finance Lease Agreement; (ii) the ABC Finance Lease Agreement; and (iii) the CITIC Finance Lease Agreement and the transactions contemplated thereunder and therefore no Shareholder is required to abstain from voting if a general meeting were to be convened for the approval of each of (i) the BoCom Finance Lease Agreement; (ii) the ABC Finance Lease Agreement; and (iii) the CITIC Finance Lease Agreement.

Pursuant to Rule 14.44 of the Listing Rules, Shareholders' approval of each of (i) the BoCom Finance Lease Agreement; (ii) the ABC Finance Lease Agreement; and (iii) the CITIC Finance Lease Agreement may be given by way of written Shareholders' approval in lieu of holding a general meeting if (1) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of each of (i) the BoCom Finance Lease Agreement; (ii) the ABC Finance Lease Agreement; and (iii) the CITIC Finance Lease Agreement; and (2) the written Shareholders' approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% of the voting rights at that general meeting to approve each of (i) the BoCom Finance Lease Agreement; (ii) the ABC Finance Lease Agreement; and (iii) the CITIC Finance Lease Agreement.

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Written Shareholders' approval for each of (i) the BoCom Finance Lease Agreement; (ii) the ABC Finance Lease Agreement; and (iii) the CITIC Finance Lease Agreement and the transactions contemplated thereunder has been obtained from the Closely Allied Group which together holds more than 50% of the issued Shares giving the right to attend and vote at a general meeting:

Name	Type of Shares	Number of Shares held	Approximate percentage of total number of Shares in issue (Notes 1 and 2)
<i>Closely Allied Group</i>			
(1) Yunnan Province Water with its acting in concert parties (Mr. Liu Xujun, Mr. Huang Yunjian and Mr. Wang Yong)	Domestic Shares	361,487,162	30.30%
(2) Beijing OriginWater	Domestic Shares	286,650,000	24.02%
(3) Caiyun International	H Shares	<u>8,449,000</u>	<u>0.71%</u>
	<i>Sub-total:</i>	<u><u>656,586,162</u></u>	<u><u>55.03%</u></u>
Mr. Yu Long	Domestic Shares/ H Shares	11,590,000	0.97%
Yantai Xinzhen Tianying Equity Investment Center (Limited Partnership)	Domestic Shares	124,754,169	10.46%
25 Management Shareholders	Domestic Shares	18,300,000	1.53%
The National Council for Social Security Fund of the PRC	H Shares	30,454,900	2.55%
Public Shareholders	H Shares	<u>351,528,226</u>	<u>29.46%</u>
	<i>Total:</i>	<u><u>1,193,213,457</u></u>	<u><u>100%</u></u>

Notes:

- The percentage was calculated based on 1,193,213,457 issued Shares as at the Latest Practicable Date.
- The above percentages may not be exact figures due to rounding and the shareholding may not add up to 100%.

Accordingly, no general meeting will be convened for the purposes of approving each of (i) the BoCom Finance Lease Agreement; (ii) the ABC Finance Lease Agreement; and (iii) the CITIC Finance Lease Agreement and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

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RECOMMENDATION

The Board considers that the respective terms of each of (i) the BoCom Finance Lease Agreement; (ii) the ABC Finance Lease Agreement; and (iii) the CITIC Finance Lease Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Had a special general meeting been convened for the approval of each of (i) the BoCom Finance Lease Agreement; (ii) the ABC Finance Lease Agreement; and (iii) the CITIC Finance Lease Agreement, the Board would have recommended the Shareholders to vote in favour of each of (i) the BoCom Finance Lease Agreement; (ii) the ABC Finance Lease Agreement; and (iii) the CITIC Finance Lease Agreement.

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular.

By order of the Board
Yunnan Water Investment Co., Limited*
Li Jialong
Chairman

* *For identification purposes only*

SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for (i) the three years ended 31 December 2019, and (ii) the six months ended 30 June 2020 are disclosed in the following documents which are published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.yunnanwater.cn.

- (i) Annual report of the Company for the year ended 31 December 2017
- (ii) Annual report of the Company for the year ended 31 December 2018
- (iii) Annual report of the Company for the year ended 31 December 2019
- (iv) Interim report of the Company for the six months ended 30 June 2020

WORKING CAPITAL

After taking into account the financial resources available to the Group, including the proceeds from the respective finance lease arrangements under the BoCom Finance Lease Agreement, the ABC Finance Lease Agreement and the CITIC Finance Lease Agreement, the internally generated funds and the presently available credit facilities, the Directors, after due and careful enquiry, are of the opinion that the Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular, in the absence of unforeseeable circumstances.

INDEBTEDNESS

As at the close of business on 31 October 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding indebtedness as summarized below:

Borrowings

The Group's borrowings primarily consisted of short-term and long-term bank borrowings, corporate bonds and other borrowings.

As at the close of business on 31 October 2020, the Group had total outstanding borrowings of approximately RMB29,494 million, further details of which are set out below:

	As at 31 October 2020 <i>RMB'000</i>
Non-current	
Long-term bank borrowings	
— Secured	9,491,154
— Unsecured	5,714,017
	<u>15,205,171</u>
Corporate bonds and other borrowings — unsecured	<u>4,931,045</u>
	20,136,216
Current	
Short-term bank borrowings	
— Secured	35,980
— Unsecured	4,720,965
	<u>4,756,945</u>
Current portion of long-term bank borrowings	
— Secured	1,248,205
— Unsecured	398,309
	<u>1,646,514</u>
Current portion of corporate bonds and other borrowings	
— Secured	—
— Unsecured	697,695
	<u>697,695</u>
Amount due to Shareholders	
— Caiyun International	1,747,561
— YHTH	509,086
	<u>2,256,647</u>
Total	<u>29,494,017</u>

As at the close of business on 31 October 2020, the Group had borrowings of RMB13,257,853,985.62 in aggregate which were secured by pledge of the Group's receivables under service concession arrangements, contract assets, land use rights, property, plant and equipment and intangible assets and the Company's investments in subsidiaries and a joint venture, and RMB265,480,000, RMB1,237,449,962.03 and RMB20,200,000 of the Group's borrowings were guaranteed by a PRC local government, a related party and third parties, respectively. The amount due to Shareholders of approximately RMB2,257 million of the Group are unsecured, interest-free and repayable on demand.

Lease liabilities

As at the close of business on 31 October 2020, the Group, as a lessee, had lease liabilities for the remainder of the relevant lease terms amounting to RMB13,717,244.33 in aggregate, all of which were unsecured and unguaranteed.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade and other payable in the ordinary course of business, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, any authorized or otherwise created but unissued term loans or other borrowings, indebtedness in nature of borrowings, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, which are either guaranteed, unguaranteed, secured, or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 31 October 2020 being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular.

MATERIAL ADVERSE CHANGE

The Directors confirm that there was no material adverse change in the financial or trading position or outlook of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up, and up to the Latest Practicable Date.

FINANCIAL AND TRADING PROSPECT OF THE GROUP

In the first half of 2020, the policy focus of environmental protection industry did not change significantly. Waste sorting, rural green development and intelligent water business are still the focus of the industry. The Group pays close attention to the industry dynamics. While promoting epidemic prevention and control work, it actively optimizes its organizational structure, pays close attention to the operation upgrading, innovates the industrial structure adjustment, and comprehensively gathers the advantages of capital, technology, resources and talents, so as to ensure the stable and healthy development of the Group.

The outbreak of the COVID-19 pandemic this year has a great impact on the Group's solid waste, tap water and construction and sales of equipment sectors. Industrial and commercial water consumption has been greatly reduced, and the lagging progress of the project has resulted in a decrease in the Group's revenue. The rising price of raw materials and the steep increase of staff quarantine and protection costs have led to a substantial increase in the Group's operating costs. On the other hand, the Group has made some achievements in financing, investment, construction, and operation in the midst of difficulties and challenges.

The Group actively adopts the strategy of long and short term debt structure adjustment which matches with the Group's business segment. It also adopts the strategy of comprehensive cost control, compares the financing cost horizontally and vertically and finds the optimal balance between the long-term income and the short-term income. The Group also selects financing projects or products based on various factors, and reduces the financial cost expenditure; In addition, the Group adopts the strategy of financing sinking to improve the project financing ability, focusing on cooperation with policy banks to obtain low cost financing. During the COVID-19 pandemic, the Group actively sought to innovate its financing mode. The Group successfully issued "the first special PPN for epidemic prevention and control in the water industry in China" of RMB100 million and "the first epidemic prevention and control debt related to medical waste disposal" of RMB800 million.

The Group attaches great importance to the construction progress of the projects under construction. In order to accelerate the completion of the projects under construction, the Group specially established a supervision group for projects under construction to determine the person in charge of the projects, so as to ensure the completion of the projects on schedule.

In order to improve the quality and efficiency of the Group's operation, in the first half of the year, the Group prioritized in promoting the construction of production execution information system and intelligent environment platform, and the project feasibility study was in good progress. The Group continuously improves the organizational structure of the Group, further optimizes its human management system, and implements performance management to facilitate the Group's operation; In addition, despite the outbreak of the COVID-19, the staff of the water supply, wastewater and solid waste projects affiliated to the Group are still dedicated to fully guarantee the safety of water supply, emission up to standard and standard treatment of solid waste. The projects under construction will resume and put into construction as soon as possible in compliance with the requirements of the PRC local government.

Looking forward, the Group will continue to adhere to the development goal of "based in Yunnan, covering the nation and going global, striving to be a leading integrated environmental services provider at the municipal level"* (立足雲南、面向全國、走向國際，致力成為領先的城鎮環境綜合服務商), and further improve the operation and management standard, optimize the project expansion capability, improve the Group's core competitiveness in the environmental protection industry, seize the industry opportunities, overcome various challenges, and create greater value for its shareholders.

* For identification purposes only

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests and short positions of the Directors, the Supervisors the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”), were as follows:

Name of Director, Supervisor and chief executive	Capacity	Type of Shares	Number of Shares held	Approximate	Approximate
				percentage of the respective type of Shares in issue (%)	percentage of the total number of Shares in issue (%)
Mr. Yu Long	Beneficial owner	Domestic Shares	10,820,000 (L)	1.30	0.91
Mr. Yu Long	Beneficial owner	H Shares	770,000 (L)	0.21	0.06
Mr. Yang Fang	Beneficial owner	Domestic Shares	1,755,000 (L)	0.21	0.15
Mr. Huang Yi	Beneficial owner	Domestic Shares	1,560,000 (L)	0.19	0.13

(L) refers to long position

Long positions in the shares and underlying shares of the associated corporation

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors, the Supervisors and the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) where were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

To the Company's best knowledge, as at the Latest Practicable Date, the following persons (other than Directors, Supervisors or the chief executive of the Company whose interests are disclosed in the section headed "Directors', Supervisors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures" above) had interests or short positions in the Shares, underlying Shares or debentures of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or had interests or short positions in 5% or more of the respective type of share capital in issue of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholder	Capacity	Type of Shares	Number of Shares	Approximate percentage of the respective type of Shares in issue (%)	Approximate percentage of the total number of Shares in issue (%)
Yunnan Province Water ¹	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Huang Yunjian ¹	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Liu Xujun ¹	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Wang Yong ¹	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
YHTH ¹	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30

Name of Shareholder	Capacity	Type of Shares	Number of Shares	Approximate percentage of the respective type of Shares in issue (%)	Approximate percentage of the total number of Shares in issue (%)
Beijing OriginWater	Beneficial owner	Domestic Shares	286,650,000 (L)	34.56	24.02
China National Petroleum Corporation ²	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Capital Company Limited ²	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Capital Limited ²	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Assets Management Co., Ltd. ²	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Ningbo Kunlun Xinyuan Equity Investment Management Partnership (Limited Partnership) ²	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Kunlun Trust Co., Ltd. ²	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Yantai Xinzhen Tianying Equity Investment Center (Limited Partnership) ²	Beneficial owner	Domestic Shares	124,754,169 (L)	15.04	10.46
The National Council for Social Security Fund of the PRC	Beneficial owner	H Shares	30,454,900 (L)	8.37	2.55

Name of Shareholder	Capacity	Type of Shares	Number of Shares	Approximate percentage of the respective type of Shares in issue (%)	Approximate percentage of the total number of Shares in issue (%)
Caiyun International ¹	Beneficial owner	H Shares	8,449,000 (L)	2.32	0.71
YHTH ¹	Interests in controlled corporation, interests held jointly with another person	H Shares	8,449,000 (L)	2.32	0.71

Notes:

(L) refers to long position

- (1) Yunnan Province Water is wholly owned by YHTH and is the beneficial owner of 361,487,162 Domestic Shares. Caiyun International is wholly owned by YHTH and is the beneficial owner of 8,449,000 H Shares. YHTH is deemed to be interested in all the Domestic Shares held by Yunnan Province Water and H Shares held by Caiyun International pursuant to the SFO which representing approximately 31.01% of total issued Shares. By virtue of the acting in concert agreement dated 24 July 2014 (the “**Acting in Concert Agreement**”), each of Yunnan Province Water and YHTH is deemed to be interested in all the Domestic Shares held by Huang Yunjian, Liu Xujin, Wang Yong and each of Yunnan Province Water and YHTH in aggregate pursuant to the SFO.

Huang Yunjian is the beneficial owner of 1,950,000 Domestic Shares. By virtue of the Acting in Concert Agreement entered into between Yunnan Province Water, Liu Xujun, Huang Yunjian and Wang Yong, each of Liu Xujun, Huang Yunjian and Wang Yong agreed to act in concert with Yunnan Province Water in exercising their voting rights in the Shareholders’ meeting of the Company. Mr. Huang is deemed to be interested in all the Domestic Shares held by Yunnan Province Water, Liu Xujun, Wang Yong and Mr. Huang himself in aggregate pursuant to the SFO.

Liu Xujun is the beneficial owner of 195,000 Domestic Shares. By virtue of the Acting in Concert Agreement, he is deemed to be interested in all the Domestic Shares held by Yunnan Province Water, Huang Yunjian, Wang Yong and himself in aggregate pursuant to the SFO.

Wang Yong is the beneficial owner of 585,000 Domestic Shares. By virtue of the Acting in Concert Agreement, he is deemed to be interested in all the Domestic Shares held by Yunnan Province Water, Huang Yunjian, Liu Xujun and himself in aggregate pursuant to the SFO.

- (2) Ningbo Kunlun Xinyuan Equity Investment Management Partnership (Limited Partnership) (“**Ningbo Kunlun Xinyuan**”) is a general partner of Yantai Xinzhen Tianying Equity Investment Center (Limited Partnership) (“**XinZhen Tianying**”), which holds 3.85% equity interests in Xinzhen Tianying, the beneficial owner of 124,754,169 Domestic Shares; Ningbo Kunlun Xinyuan is owned as to 99% by Kunlun Trust Co., Ltd.; Kunlun Trust Co., Ltd. is owned as to 82.18% by CNPC Assets Management Co., Ltd., which in turn is wholly owned by CNPC Capital Limited; CNPC Capital Limited is wholly owned by CNPC Capital Company Limited, which in turn is owned as to 77.35% by China National Petroleum Corporation.

Save as disclosed above, to the best knowledge of the Company, as at the Latest Practicable Date, no person (other than the Directors, Supervisors and chief executive of the Company) had informed the Company that he had interests or short positions in the Shares or underlying Shares of equity derivatives of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or held any interests or short positions in 5% or more of the respective types of capital in issue of the Company.

4. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Group or associated companies which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective close associates had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

6. DIRECTORS’ INTERESTS IN THE GROUP’S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Group since 31 December 2019, the date to which the latest published audited consolidated financial statements of the Group were made up, and there is no contract or arrangement entered into by any member of the Group subsisting as at the date of this circular in which any Director is materially interested and which is significant to the business of the Group.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

8. MATERIAL CONTRACTS

The following material contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the date of this circular:

- (a) the sale and purchase agreement dated 29 September 2020 (the “**Equity Transaction Agreement**”) entered into between the Company and Fuzhou Dingrong Environmental Protection Technology Co., Ltd.* (福州市鼎榕環保科技有限公司) (“**Dingrong Environmental Protection**”) in relation to the disposal of 40% equity interest in Fujian Dongfei Environment Group Co., Ltd.* (福建東飛環境集團有限公司) by the Company to Dingrong Environmental Protection for a consideration of RMB375,200,000;
- (b) 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;
- (c) the ABC Finance Lease Agreement;
- (d) the First ABC Finance Lease Agreement;
- (e) the BoCom Finance Lease Agreement;
- (f) the First BoCom Finance Lease Agreement;
- (g) the Second BoCom Finance Lease Agreement;
- (h) the CITIC Finance Lease Agreement;
- (i) the First CITIC Finance Lease Agreement;
- (j) the Second CITIC Finance Lease Agreement;
- (k) the capital increase agreement dated 17 June 2020 entered into among the Company, Yunnan Asset Management Co., Ltd.* (雲南省資產管理有限公司) and Yunnan Yunshui Construction & Engineering Co., Ltd.* (雲南雲水建設工程有限公司) in respect of the subscription of interests in Yunnan Yunshui Construction & Engineering Co., Ltd.* (雲南雲水建設工程有限公司) by Yunnan Asset Management Co., Ltd.* (雲南省資產管理有限公司);
- (l) the joint venture agreement dated 21 April 2020 entered into among the Company, Central and Southern China Municipal Engineering Design and Research Institute Co., Ltd.* (中國市政工程中南設計研究總院有限公司) and Jiangxi the Third Construction Co., Ltd.* (江西建工第三建築有限責任公司) in relation to the establishment of Yingde Yunshui Water Co., Ltd.* (英德雲水水務有限公司) in Yingde City, Guangdong Province, the PRC, with a total investment amount of RMB219,398,000;

- (m) the agreement on transfer of property share in Jinan Yuanchuang Yunteng Equity Investment Partnership (Limited Partnership) dated 7 April 2020 entered into between the Company and Eastmoney Securities Co., Ltd.* (東方財富證券股份有限公司) in relation to the Company's acquisition of the 79.29% of the property share held by Eastmoney Securities Co., Ltd.* (東方財富證券股份有限公司) in Jinan Yuanchuang Yunteng Equity Investment Partnership (Limited Partnership);
- (n) the shareholders agreement dated 23 October 2019 entered into among the Company, Guizhou Tongren City Development and Investment Group Co., Ltd.* (貴州省銅仁市城市開發投資集團有限公司), Guizhou Province Shiqian County Water Investment Co., Ltd.* (貴州省石阡縣水務投資有限責任公司), Guizhou Province Yinjiang Autonomous County Yinfeng Municipal Urban and Rural Construction Investment Group Co., Ltd.* (貴州省印江自治縣銀豐城鄉建設投資集團有限公司) and China Urban Construction Design & Research Institute in relation to the establishment of Tongren City Yunshui Environment Co., Ltd.* (銅仁市雲水環境有限公司) in Tongren City, Guizhou Province, the PRC, with a total investment amount of RMB337,100,000;
- (o) the equity transfer agreement dated 30 September 2019 entered into among the Company, Beijing OriginWater and Mr. Lin Kehong in relation to the acquisition of 100% equity interest in Liaocheng Chuanglian Environmental Technology Co., Ltd.* (聊城市創聯環保科技有限公司) by the Company from Beijing OriginWater and Mr. Lin Kehong;
- (p) the shareholders' agreement dated 16 September 2019 entered into among the Company, Longhai City Construction Investment and Development Co., Ltd.* (龍海市城市建設投資開發有限公司), YCIH No. 1 Water Resources and Hydropower Construction Co., Ltd.* (雲南建投第一水利水電建設有限公司) and Zhongdu Engineering Design Co., Ltd.* (中都工程設計有限公司) in relation to the establishment of Longhai Yunshui Environmental Protection Engineering Co., Ltd.* (龍海市雲水環保工程有限公司) in Longhai City, Fujian Province, the PRC, with a total investment amount of RMB300,000,000;
- (q) the joint venture agreement dated 16 August 2019 entered into between the Company and Shuangcheng Tongda Water Supply and Drainage Co., Ltd.* (雙城市通達供排水有限公司) in relation to the establishment of Harbin Yunshui Water Co., Ltd.* (哈爾濱雲水水務有限公司) in Shuangcheng District, Harbin City, Heilongjiang Province, the PRC, with a total investment amount of RMB202,102,650;
- (r) the equity pledge agreement dated 24 July 2019 entered into among the Company, Dali State-owned Asset Operation Co., Ltd.* (大理市國有資產經營有限責任公司), Dali Provincial Resort State-owned Assets Operation Co., Ltd.* (大理省級旅遊度假區國有資產經營有限責任公司) and Dali Dongcheng District Municipal Engineering Co., Ltd.* (大理市東城區市政工程有限責任公司) in relation to the pledge of the 40.27% equity interest in Dali Water Investment Co., Ltd.* (大理水務產業投資有限公司) by the Company in favour of Dali State-owned Asset Operation Co., Ltd.* (大理市國有資產經營有限責任公司), Dali Provincial Resort State-owned Assets Operation Co., Ltd.* (大理省級旅遊度假區國有資產經營有限責任公司) and Dali Dongcheng District Municipal Engineering Co., Ltd.* (大理市東城區市政工程有限責任公司);

- (s) the supplemental agreement dated 8 March 2019 of the joint venture agreement dated 24 January 2018 entered into among the Company, Qinyang Qinbei Construction Investment Co., Ltd.* (沁陽市沁北建設投資有限公司) and YCIH No.5 Construction Co., Ltd.* (雲南建投第五建設有限公司) in relation to the establishment of Qinyang Yunhuai Water Co., Ltd.* (沁陽市雲懷水務有限公司) in Qinyang City, Henan Province, the PRC, with a total investment amount of RMB442,003,000;
- (t) the joint venture agreement dated 29 January 2019 entered into among the Company, Guangzhou Engineering Contractor Group Co., Ltd.* (廣州工程總承包集團有限公司) and Zhongdu Engineering Design Co., Ltd.* (中都工程設計有限公司) in relation to the establishment of Luoding City Yunshui Environmental Protection Co., Ltd.* (羅定市雲水環保有限公司) in Luoding (a county-level city), Guangdong Province, the PRC, with a total investment amount of RMB219,864,800;
- (u) the investment agreement dated 25 January 2019 and its supplemental agreement dated 8 February 2019 entered into among the Company, Waytop Investment Group Limited (匯鼎投資集團有限公司), Xinde Investment Limited (鑫德投資有限公司), Mr. Wang Xinyan, Mr. Chen Jian and the Target Company in relation to (i) the acquisition of the 20% equity interest in the Target Company by the Company from Waytop Investment Group Limited (匯鼎投資集團有限公司) and (ii) the subscription of the 20% equity interest in the Target Company by the Company;
- (v) the joint venture agreement dated 21 November 2018 entered into among the Company, Maoming Jianjiang River Basin Water Conservancy and Hydropower Construction and Installation Engineering Co., Ltd.* (茂名市鑿江流域水利水電建築安裝工程有限公司) and Guangzhou Environmental Protection Engineering Co., Ltd.* (廣州市環境保護工程設計院有限公司) in relation to the establishment of Xinyi City Yunshui Environmental Protection Co., Ltd.* (信宜市雲水環保有限公司) in Xinyi City, Maoming City, Guangdong Province, the PRC, with a total investment amount of RMB168,750,000;
- (w) the joint venture agreement dated 21 November 2018 entered into among the Company, Maoming Jianjiang River Basin Water Conservancy and Hydropower Construction and Installation Engineering Co., Ltd.* (茂名市鑿江流域水利水電建築安裝工程有限公司) and Guangzhou Environmental Protection Engineering Co., Ltd.* (廣州市環境保護工程設計院有限公司) in relation to the establishment of Xinyi City Yunshui Water Co., Ltd.* (信宜市雲水水務有限公司) in Xinyi City, Maoming City, Guangdong Province, the PRC, with a total investment amount of RMB192,890,000;
- (x) the shareholders' agreement dated 18 October 2018 entered into between the Company and Xinjiang Derun Economic Construction and Development Co., Ltd.* (新疆德潤經濟建設發展有限公司) in relation to the establishment of Xinjiang Yunrun Recycling Economy Co., Ltd.* (新疆雲潤循環經濟有限公司) in Urumqi, Xinjiang Uygur Autonomous Region, the PRC, with a total investment amount of RMB132,917,600; and

- (y) the joint venture agreement dated 12 October 2018 entered into among the Company, Funan Huai'an Water Co., Ltd.* (阜南縣淮岸水務有限公司), Fuyang Urban and Rural Planning and Design Institute* (阜陽市城鄉規劃設計研究院) and Yunnan Railway General Corporation* (雲南省鐵路總公司) in relation to the establishment of Funan Yunshui Urban and Rural Environmental Protection Technology Co., Ltd.* (阜南雲水城鄉環保科技有限公司) in Funan County, Fuyang City, Anhui Province, the PRC, with a total investment amount of RMB180,000,000.

9. MISCELLANEOUS

The registered office and principal place of business in the PRC of the Company is located at 2089 Haiyuan Bei Road, Gaoxin District, Kunming, Yunnan, the PRC. The principal place of business of the Company in Hong Kong is located at Suites 3110–11, 31/F, Tower 1, The Gateway, Harbour City, 25 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong.

The company secretary of the Company is Mr. Li Bo, who is a member of the Hong Kong Institute of Certified Public Accountants and a member of the Certified Public Accountants of Australia.

The branch share registrar and transfer office of the Company is Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

The English text of this circular shall prevail over the Chinese text in case of any inconsistency, except for the English names/translations of the companies established in the PRC, relevant authorities in the PRC and other Chinese terms used in this circular which are only translations of their official Chinese names.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Suites 3110–11, 31/F, Tower 1, The Gateway, Harbour City, 25 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong for a period of 14 days from the date of this circular:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for each of the three years ended 31 December 2017, 2018 and 2019;
- (c) the interim report of the Company for the six months ended 30 June 2020;
- (d) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix; and
- (e) this circular.

* For identification purposes only