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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt about this circular** or as to the action to be taken, you should consult your licensed securities dealer or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **Yunnan Water Investment Co., Limited\***, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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YUNNAN WATER

雲南水務投資股份有限公司

**Yunnan Water Investment Co., Limited\***

*(a joint stock limited liability company incorporated in the People's Republic of China)*

**(Stock code: 6839)**

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

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\* *For identification purposes only*

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## DEFINITIONS

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*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
“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
“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
“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)
“Consideration”	the consideration in the sum of RMB375,200,000 payable by Dingrong Environmental Protection to the Company in relation to the Disposal
“controlling shareholder(s)”	has the meaning ascribed to it 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
“Dingrong Environmental Protection”	Fuzhou Dingrong Environmental Protection Technology Co., Ltd.* (福州市鼎榕環保科技有限公司), a limited liability company incorporated in the PRC and the purchaser under the Equity Transaction Agreement and the Supplemental Agreement to the Equity Transaction Agreement
“Director(s)”	the director(s) of the Company

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## DEFINITIONS

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“Disposal”	the disposal of the Sale Shares by the Company to Dingrong Environmental Protection in accordance with the terms and conditions of the Equity Transaction Agreement and the Supplemental Agreement to the Equity Transaction Agreement
“Domestic Share(s)”	the issued ordinary shares at the nominal value of RMB1.00 per share in the share capital of the Company which are subscribed for or credited as paid up in RMB
“Equity Transaction Agreement”	the sale and purchase agreement dated 29 September 2020 entered into between the Company and Dingrong Environmental Protection in relation to the Disposal
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	the overseas listed foreign-invested ordinary shares of the Company with a nominal value of RMB1.00 per share in the share capital of the Company, which are listed on the Main Board of the Stock Exchange (stock code: 6839.HK) and subscribed for and traded in Hong Kong dollars
“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)
“Independent Valuer”	Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd.* (中威正信(北京)資產評估有限公司), an independent PRC valuer
“Latest Practicable Date”	16 December 2020
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC” or “State”	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
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	40% equity interest in the Target Company legally and beneficially owned by the Company originally acquired and subscribed for by the Company pursuant to the 2019 Acquisition and Subscription
“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)

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## DEFINITIONS

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“Supervisor(s)”	supervisor(s) of the Company
“Supplemental Agreement to the Equity Transaction Agreement”	the supplemental agreement dated 29 September 2020 entered into between the Company and Dingrong Environmental Protection in accordance with the terms of the Equity Transaction Agreement, for the purpose of further specifying certain terms under the Equity Transaction Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Fujian Dongfei Environment Group Co., Ltd.* (福建東飛環境集團有限公司), a limited liability company incorporated in the PRC, 40% interest in which is held by the Company as at the date of this circular
“Valuation Reference Date”	31 December 2019, being the reference date of the Valuation Report on the appraisal of the equity attributable to owners of the Target Company dated 30 June 2020 issued by the Independent Valuer
“Valuation Report”	the valuation report dated 30 June 2020 issued by the Independent Valuer in respect of the appraisal of the equity attributable to the owners of the Target Company as at the Valuation Reference Date
“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
“YNEX”	Yunnan Equity Exchange, an institution authorized by Yunnan State-owned Assets Supervision and Administration Commission to conduct asset and equity transactions of state-owned enterprises under the jurisdiction of People’s Government of Yunnan Province
“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

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## LETTER FROM THE BOARD

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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)

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

**INTRODUCTION**

References are made to the announcement of the Company dated 25 January 2019 in relation to the acquisition of 20% of the registered capital of the Target Company at a consideration of RMB120,000,000 and the further subscription of 20% of the registered capital of the Target Company on a fully-diluted basis as enlarged by such subscription at a consideration of RMB200,000,000 (the “**2019 Acquisition and Subscription**”) and those dated 31 July 2020, 28 September 2020, 29 September 2020 and 5 October 2020 in relation to the disposal of 40% equity interest held by the Company in the Target Company by way of public tender through Yunnan Equity Exchange (YNEX).

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## LETTER FROM THE BOARD

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The Sale Shares were originally acquired by the Company through the 2019 Acquisition and Subscription at an aggregate consideration of RMB320,000,000 on 25 January 2019. The Board announced that on 29 September 2020 (after trading hours), the Company, as vendor, and Dingrong Environmental Protection, as purchaser, entered into the Equity Transaction Agreement and the Supplemental Agreement to the Equity Transaction Agreement, pursuant to which, the Company has agreed to sell, and Dingrong Environmental Protection has agreed to acquire, the Sale Shares at the Consideration of RMB375,200,000. Upon completion of the Disposal, the Company shall cease to have any interest in the Target Company.

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

Pursuant to Rule 14.44 of the Listing Rules, Shareholders' approval of the Disposal 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 the Disposal; 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 the Disposal.

Written approval for the Disposal has been obtained from the Closely Allied Group which together holds more than 50% of the voting rights at a general meeting. As such, no general meeting will be convened for the purpose of approving the Disposal.

The purposes of this circular are to provide you with, among other things, further details of the Disposal.

### THE DISPOSAL

References are made to the announcements of the Company dated 31 July 2020, 28 September 2020, 29 September 2020 and 5 October 2020 in relation to the disposal of 40% equity interest held by the Company in the Target Company by way of public tender through Yunnan Equity Exchange (YNEX).

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

### EQUITY TRANSACTION AGREEMENT

**Date:** 29 September 2020 (after trading hours)

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

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Dingrong Environmental Protection and its ultimate beneficial owner are Independent Third Parties.

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## LETTER FROM THE BOARD

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### Subject Matter

Subject to the terms of the Equity Transaction Agreement, the Company has agreed to sell, and Dingrong Environmental Protection has agreed to acquire, the Sale Shares, being 40% equity interest of the Target Company, at the Consideration of RMB375,200,000.

### Method of Equity Transfer, the Consideration and its Basis of Determination

The Company entrusted YNEX to obtain the equity bidder through public tender (the “**Public Tender**”), and the transfer of equity shall be conducted by way of agreement transfer. The minimum consideration, being the initial bid price for the Sale Shares, was RMB374,400,000, which was determined based on the initial appraised value of the Sale Shares as at the Valuation Reference Date, being 31 December 2019, as assessed by the Independent Valuer using the income approach, and was subsequently adjusted to RMB375,200,000 upon the review of the aforesaid valuation by the relevant PRC government authorities governing the transfer of State-owned assets, and the summary of the Valuation Report is set out in Appendix II to this circular. As of the Latest Practicable Date, the process of the public tender through YNEX has been completed, and the highest and final bid price of the Sale Shares was RMB375,200,000 as Dingrong Environmental Protection was the only equity bidder for the Sale Shares in the Public Tender. The Consideration was determined based on the final bid price of the Sale Shares upon completion of the Public Tender after considering other relevant factors by the Company, including (i) the original acquisition cost of the Sale Shares of RMB320,000,000 in aggregate; (ii) the historical financial performance and future development potential of the Target Company; (iii) the current situation and future development prospects of the industries in which the Target Company operates; and (iv) the management effort and human resources invested in the Target Company by the Company and the synergy of the respective businesses of the Target Company and the Group.

As supplemented by the Supplemental Agreement to the Equity Transfer Agreement, details of which are set out in the paragraphs headed “Supplemental Agreement to the Equity Transaction Agreement” below in this circular, the Consideration shall be adjusted according to the results of the special audit of the Target Company conducted for the transition period (the “**Special Audit**”) from the Valuation Reference Date to the date of full settlement of the balance of the Consideration by Dingrong Environmental Protection, i.e. 29 September 2020 (based on the date when such payment has been received in full by the Company’s account) (the “**Transition Period**”). Taking into account the aforesaid adjustment, the Board is of the view that the Consideration based on the results of the Valuation Report is fair and reasonable.

### Transfer of Claims, Debts and Liabilities upon the Disposal

Upon completion of the Disposal, the new shareholder(s) holding 40% equity interest of the Target Company shall assume and inherit any claims, debts and liabilities in relation to the Target Company.

### Tax and Fees in relation to the Equity Transfer

Any relevant tax and fee incurred in relation to the equity transfer pursuant to the Disposal shall be borne by the Company and Dingrong Environmental Protection as agreed or in accordance with the relevant applicable laws and regulations of the PRC, or by Dingrong Environmental Protection in case such tax and fee are not specified in any agreement or under any requirement.

## SUPPLEMENTAL AGREEMENT TO THE EQUITY TRANSACTION AGREEMENT

**Date:** 29 September 2020 (after trading hours)

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



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## LETTER FROM THE BOARD

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### Payment Method of the Consideration

According to the Supplemental Agreement to the Equity Transaction Agreement, the Consideration of RMB375,200,000 shall be payable to the Company in two instalments in cash in the following manner:

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

Having considered the above and the factors described under the section headed “Reasons for and the benefits of the Disposal” below, the Directors consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### Delivery of Equity Interest

Subject to the approval of the Shareholders, the Company shall assist Dingrong Environmental Protection to complete the relevant registration procedures in relation to the Disposal and the pledge deregistration procedures of the Sale Shares with the relevant Administration for Industry and Commerce within five working days upon the full settlement of the Consideration by Dingrong Environmental Protection.

During the Transition Period, any profits of the Target Company generated (excluding the transaction deposit of RMB150,000,000) shall be enjoyed by the Company in proportion to the Company’s original shareholding in the Target Company (the “**Bonus Payment**”).

Both parties agreed that (i) Dingrong Environmental Protection shall pay the Company an advance payment of the Bonus Payment of RMB24,000,000 at the time when Dingrong Environmental Protection makes payment of the Consideration to the Company; (ii) the Consideration shall be otherwise adjusted by both parties subject to the results of the Special Audit; and (iii) Dingrong Environmental Protection shall be entitled to the right of profit distribution of the Target Company from the Valuation Reference Date upon the complete and actual fulfillment of its obligations pursuant to the Supplemental Agreement to the Equity Transaction Agreement.

The Bonus Payment in the amount of RMB24 million was estimated based on the historical monthly profit of the Target Company. Dingrong Environmental Protection has fully settled the balance of the Consideration on 29 September 2020 and the Special Audit has been completed. According to the Special Audit, the Company is entitled to the proportional profit of the Target Company for the Transition Period in the amount of approximately RMB29.4 million (the “**Audited Profit**”). As agreed among the parties to the Disposal, the Company shall receive the Audited Profit from the Target Company and return the Bonus Payment to Dingrong Environmental Protection by the end of December 2020.

### Effective Date of the Equity Transaction Agreement

According to the Supplemental Agreement to the Equity Transaction Agreement, the Equity Transaction Agreement shall be established from the date when it was signed and sealed by the legal representatives of both parties, and shall take effect from the date when the approval of the Shareholders for the Disposal is obtained.

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## LETTER FROM THE BOARD

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### 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 DINGRONG ENVIRONMENTAL PROTECTION

Dingrong Environmental Protection is a company established in the PRC in April 2019 with limited liability and is primarily engaged in researches on environmental science and technology, materials science and basic science of other engineering and technology, sales of ecological environmental materials, environmental technology promotion, etc., which is ultimately beneficially owned by Mr. Cai Yuan, an Independent Third Party.

### INFORMATION OF THE TARGET COMPANY

The Target Company is a company established in the PRC in January 2013 with limited liability and is principally engaged in the entire industrial chain of urban and rural environmental services covering road sweeping and cleaning, the collection and transportation of household waste, the construction and operation of waste transfer stations, watercourse management and maintenance, virescence maintenance, and investment and operation of rural-urban sanitation integration projects. As at the Latest Practicable Date, the Target Company is held as to 40%, 30% and 30% by the Company, Waytop Investment Group Limited\* (匯鼎投資集團有限公司) and Xinde Investment Limited\* (鑫德投資有限公司), respectively.

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

	<b>For the year ended</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2018</b>	<b>2019</b>
	<i>RMB</i>	<i>RMB</i>
Income	691,785,072.99	947,683,172.55
Profit before tax	85,107,222.14	131,428,178.72
Profit after tax	63,030,370.04	101,621,676.48

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

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## LETTER FROM THE BOARD

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### REASONS FOR AND BENEFITS OF THE DISPOSAL

The Board considers that the synergy of the Target Company with the Group has not been significant since its acquisition by the Company back in early 2019 owing to the fundamental differences in the principal businesses between the Target Company, being the provision of urban environmental protection services, and that of the Company, being urban wastewater treatment and water supply and it is expected that the potential synergy of the Target Company with the Group going forward would not be substantial. As such, for the purposes of enhancing its working capital upon the realisation of the Company's shareholding in the Target Company for the strategic development and the internal management needs of the Group, the Company has decided to proceed with the Disposal.

The Sale Shares were originally acquired by the Company through the 2019 Acquisition and Subscription. The original acquisition cost of the Sale Shares is RMB320,000,000 in aggregate and the Consideration of the Disposal is RMB375,200,000, representing a premium of approximately 17.25% over the original acquisition cost of the Sale Shares.

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

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

### FINANCIAL EFFECT OF THE DISPOSAL

As at the date of this circular, the Target Company has been accounted for as an associate, and its financial results, assets and liabilities have not been consolidated in the accounts of the Group. The 40% audited equity of owners of the Target Company as at 31 December 2019 amounted to approximately HK\$191,266,000. The Consideration represents an excess of approximately HK\$183,934,000 over the net asset value of the Target Company as at 31 December 2019. Following the completion of the Disposal, the Target Company will no longer be determined as an associate of the Company, but a financial asset available for sale of the Company.

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

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

Save as disclosed herein, the Disposal will not have any material impact on the earnings, assets and liabilities of the Group.

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## LETTER FROM THE BOARD

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### USE OF PROCEEDS

The net proceeds from the Disposal will be used as the Group's general working capital for its principal operations including 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.

### LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Disposal exceed(s) 25% but is/are below 75%, the Disposal constitutes a major transaction of the Company and is 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 the Disposal 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 the Disposal.

Pursuant to Rule 14.44 of the Listing Rules, Shareholders' approval of the Disposal 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 the Disposal; 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 the Disposal.

Written Shareholders' approval for the Disposal 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:

<b>Name</b>	<b>Type of Shares</b>	<b>Number of Shares held</b>	<b>Approximate percentage of total number of Shares in issue (Notes 1 and 2)</b>
<b><i>Closely Allied Group</i></b>			
(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>656,586,162</u>	<u>55.03%</u>

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## LETTER FROM THE BOARD

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Name	Type of Shares	Number of Shares held	Approximate percentage of total number of Shares in issue (Notes 1 and 2)
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>1,193,213,457</u>	<u>100%</u>

*Notes:*

1. The percentage was calculated based on 1,193,213,457 issued Shares as at the Latest Practicable Date.
2. 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 the Disposal and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

### RECOMMENDATION

The Board considers that the terms of the Disposal 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 the Disposal, the Board would have recommended the Shareholders to vote in favour of the Disposal.

### 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](http://www.hkexnews.hk) and the website of the Company at [www.yunnanwater.cn](http://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 Disposal, 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:

	<b>As at 31 October 2020</b> <i>RMB'000</i>
<b>Non-current</b>	
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>
	<b>20,136,216</b>
<b>Current</b>	
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>
<b>Total</b>	<b><u>29,494,017</u></b>

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*

The following is the summary of the valuation report dated 30 June 2020 issued by Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd.\* (中威正信(北京)資產評估有限公司) in respect of the appraisal of the equity attributable to the owners of the Target Company as at the Valuation Reference Date:

- I. Appraised entity: The Target Company.
- II. Purpose of valuation: Appraisal of the value of total shareholders' equity interests of the Target Company, thus providing value reference for the proposed transfer of equity interests in the Target Company by the Company.
- III. Appraised subject matter: Value of total shareholders' equity interests of the Target Company as at 31 December 2019.
- IV. Scope of valuation: The scope of valuation covers all assets and liabilities (i.e. total assets: RMB650,889,400, total liabilities: RMB316,122,000 and net assets: RMB334,769,400) set out in the audited balance sheet of the Target Company as at 31 December 2019. The valuation is based on the audited financial statements of the Target Company.
- V. Type of valuation and definition: The type of valuation shall refer to market value. Market value refers to the price at which the appraised subject matter would be traded between a willing buyer and a willing seller acting reasonably at arm's length, when neither is compulsory to buy or sell on the Valuation Reference Date.
- VI. Valuation reference date: 31 December 2019.
- VII. Valuation approach:

#### **Income approach**

The indirect approach is adopted for this valuation which is conducted in the following way: the value of total shareholders' equity interests of the Target Company is indirectly obtained through the appraisal of the overall value of the Target Company after taking into consideration its surplus assets and non-operating assets, which can be calculated using the following formula:

Value of total shareholders' equity interests of the Target Company = Overall value of the Target Company – Value of its interest-bearing debts + Value of its surplus assets + Value of its non-operating assets

#### **Overall value of the Target Company**

The overall value of the Target Company is obtained through discounted cash flow method (the "DCF"), namely, discounting free cash flows to equity of the Target Company by means of segmented-perpetual model. The specific calculation equation is as follows:

$$P = \frac{R_1}{(1+i)^{0.5}} + \sum_{t=2}^n \frac{R_t}{(1+i)^{(t+0.5)}} + \frac{R_n}{(i-a)} / (1+i)^{(t+n-0.5)} + \text{others}$$

Wherein: P: The appraised value of total shareholders' equity interests of the Target Company;  
 $R_t$ : Free cash flows to equity in the  $t^{\text{th}}$  year;  
 $R_n$ : Free cash flows to equity after the  $n^{\text{th}}$  year;  
 $t$ : The forecasted year;  
 $i$ : Discount rate;  
 $n$ : The last year of the forecasted period;  
 $a$ : Perpetual growth rate; and  
Others: The non-operating assets, liabilities, surplus assets, etc. of the Target Company analyzed in the valuation.

***Free cash flows to equity***

Free cash flows to equity are the cash flows attributed to all investors including shareholders of the Target Company and creditors of interest-bearing debts of the Target Company, which can be calculated using the equations as follows:

Free cash flows to equity of (each of the years comprising the forecasted period) = Cash inflow – Cash outflow

Free cash flows to equity of (each of the years comprising the forecasted period) = Sales income – Sales cost – Taxes and surcharges for main business + Other operating profits – Administrative expenses – Sales expenses – Finance costs + Non-operating income and expenses, net – Income taxes + Depreciation and amortization – Capital expenditure – Additional working capital + Interest-bearing liabilities

***Weighted average cost of capital***

To align with the method of calculating the free cash flows of the Target Company in this forecast, the weighted average cost of capital (“WACC”), namely, the aggregate return on investment of the Target Company, which refers to the weighted average between the expected return on equity and the return on debt adjusted for income taxes, is adopted as the discount rate. The equation for calculating the WACC is as follows:

$$\text{WACC} = R_e \frac{E}{(D + E)} + R_d \frac{D}{(D + E)} (1 - T)$$

Wherein: WACC: Weighted average cost of capital;  
 E: Equity value;  
 R<sub>e</sub>: Return on equity;  
 D: Value of interest-bearing liabilities;  
 R<sub>d</sub>: Return on bond investment; and  
 T: Corporate income tax rate.

***Return on equity***

The capital asset pricing model (“CAPM”) is used to determine the return on equity investment (R<sub>e</sub>), which can be calculated using the equation as follows:

$$R_e = R_f + \beta \times (R_m - R_f) + \alpha$$

Wherein: R<sub>e</sub>: Return on equity;  
 R<sub>f</sub>: Risk-free rate of return;  
 β: Risk factor;  
 R<sub>m</sub>: Market-expected rate of return;  
 R<sub>m</sub> – R<sub>f</sub>: Market risk premium (ERP); and  
 α: Enterprise-specific risk rate.

***Profit Period***

In this appraisal, the perpetual term is used as the profit period (the “Profit Period”), the first stage of which commences from 1 January 2020 to 31 December 2024, the forecasted period is 5 years, and in this stage, based on the historical performance and future market analysis of the Target Company, the income stream of the Target Company shall gradually stabilize; the second stage of which spans from 1 January 2025 to perpetual operation, and in this stage, the net cash flow of the Target Company shall remain stable.

## VIII. Valuation conclusions:

According to the analysis of the historical information in relation to the operation of the Target Company, the company's income and profits have increased by a certain extent over the years. The reasons for the appreciation are as follows: the book value of Fujian Dongfei's assets reflects the construction cost of the enterprise, while the unidentifiable intangible resources such as market development ability, operating experience and management ability of the appraised entity have not been fully reflected in the account. The Target Company operates in the environmental sanitation industry, and is mainly engaged in the provision of municipal services, such as urban cleaning, garbage collection and transportation, municipal greening and river cleaning. Under the trend of "marketization of urban sanitation works", this has brought a more sustainable market to the Target Company. The Target Company has an ability to operate independently and has been profit-making and is able to operate on a going concern basis. The future operation of the Target Company can be reasonably and objectively predicted. The income approach is to quantify and present value the expected profitability of an enterprise's overall assets, it emphasizes the overall expected profitability of the enterprise. The overall profitability not only reflects the value of all tangible assets, intangible assets and liabilities stated on the balance sheet, but also includes the important sources of various enterprise values not stated on the balance sheet. Investors should pay more attention to the future profitability of the appraised entity. In terms of objective value, the valuation using the income approach under this economic activity better reflects the true value of the appraised entity. To conclude, the valuation conclusions obtained through the income approach shall be the final conclusions of the overall value of the appraised entity.

Based on the judgement and business plans made by the equity interest holders and the management of the Target Company on its future development, as well as on the premise of keeping the current way of operation on a going concern basis, the value of total shareholders' equity interests in the Target Company as at the Valuation Reference Date using the income approach is RMB938,000,000 with an appreciation rate of 96.17% given the net assets of approximately RMB478,163,900 valued on a relative consolidation basis.

When determining the appraised value of equity, the valuer did not take into account the impact of the premium or discount caused by controlling interests and non-controlling interests on the results of the valuation, nor the impact of liquidity of the equity interests on the results of the valuation.

## IX. Valuation assumptions:

## (I) General assumptions

## 1. Transaction assumption

This assumption assumes that all assets to be appraised are already in the process of being transacted, and the valuation is carried out by simulating the market according to the transaction conditions of the assets to be valuation. The Transaction Assumption is one of the most fundamental assumptions for the performance of valuation.

## 2. Open market assumption

This assumption assumes that, with respect to assets traded or to be traded in the market, both parties of asset trading have equal status and have the opportunity and time to obtain sufficient market information, so as to make rational judgments on the functions, use and transaction price of the subject assets. The Open Market Assumption is based on the fact that the subject assets can be publicly traded in the market.

## 3. Continuous use assumption

This assumption refers to such an assumption that, the subject assets will continue to be used as per its current purpose and the manner, size, frequency and environment of use, or continue to be used on the basis of certain change therein, and the valuer determines the method, parameters and basis for valuation accordingly.

## 4. Going-concern assumption

As an operating entity, the Target Company will continue to operate according to its set business objectives in the external environment. The Target Company operates legally and can obtain appropriate profits to maintain its sustainable operation ability.

## 5. The Target Company will continuously operate, and the current way of operation will remain unchanged.

## 6. The accounting policies adopted by the Target Company in the future are basically consistent in material aspects with those adopted in the preparation of the Valuation Report.

## 7. There will be no significant change in the current tax bases and tax rates, credit interest rates and other policy-related fees.

## 8. There will be no force majeure or unpredictable factors that may cause material adverse effects to the enterprise.

## 9. The Target Company is in full compliance with all relevant laws and regulations unless otherwise specified.

## (II) Specific assumptions

1. The professionals and senior management of the Target Company remain relatively stable in each year, and the Target Company will not experience a severe loss of its core professionals.
2. The current and future management of the Target Company are responsible, and the company management can steadily promote the development plan of the Target Company and the Target Company can maintain a favorable operating situation.
3. The future management of the Target Company will be in compliance with relevant national laws and regulations and there will be no major violations affecting the Target Company's development and revenue realization.
4. The accounting policies adopted in compiling the historical financial information provided by the Target Company and the accounting policies adopted in the revenue forecast are basically consistent (or have been adjusted to be consistent) in material aspects with the PRC accounting methods.
5. There will be no significant changes in the social and economic environment of the PRC and the region where the Target Company is located. There is no significant change in the current national laws, regulations, systems, social politics and economic policies followed by the Target Company compared with the current ones. There will be no significant change in the industry management pattern and industry policies, and there will be no significant change in the market environment and market conditions of the industry the Target Company is engaged in.
6. The relevant credit interest rates, exchange rates, tax bases and tax rates, and policy-related fees are at the level at the Valuation Reference Date and may vary within normal range without significant change.
7. The management of the Target Company are responsible whose managing ability is equivalent to their positions and the managers of the Target Company can steadily carry out operating activities, promote the development plan of the Target Company and the future development plan as well as maintain a favorable operating situation. The operating scope and method of the Target Company will remain unchanged after the Valuation Reference Date. The main business and the composition of related income, cost, expense as well as sales strategy can be basically carried out according to the conditions of the revenue forecast for the future operating period of the Target Company.
8. There will be no significant problems in the recovery of receivables (i.e. bad debt situation).
9. The future revenue and its corresponding cost and expense of the Target Company can be predicted and measured in currency, and the cost and income of the Target Company continue to change in the same direction.
10. The risks associated with the future revenue of the Target Company can be predicted and expressed by the rate of risk return.

11. The projects of the Target Company mainly come from the market bidding and project companies are established according to the obtained contract. The contract period is limited and the contract may be renewed or not renewed after the contract expires. The income approach is based on the consolidation standard. The PRC government will continue to promote the environmental sanitation marketization, and the Target Company can operate permanently under the existing mode. The personnel and assets of the project companies of unrenewed contracts can continue to participate in the bidding activities of other environmental sanitation projects and may continue to obtain contracts.
  
12. The cash inflows and outflows of the Target Company after the Valuation Reference Date are average inflows and outflows.

\* *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 <sup>1</sup>	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Huang Yunjian <sup>1</sup>	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Liu Xujun <sup>1</sup>	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Wang Yong <sup>1</sup>	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
YHTH <sup>1</sup>	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Type of Shares</b>	<b>Number of Shares</b>	<b>Approximate percentage of the respective type of Shares in issue (%)</b>	<b>Approximate percentage of the total number of Shares in issue (%)</b>
Beijing OriginWater	Beneficial owner	Domestic Shares	286,650,000 (L)	34.56	24.02
China National Petroleum Corporation <sup>2</sup>	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Capital Company Limited <sup>2</sup>	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Capital Limited <sup>2</sup>	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Assets Management Co., Ltd. <sup>2</sup>	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Ningbo Kunlun Xinyuan Equity Investment Management Partnership (Limited Partnership) <sup>2</sup>	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Kunlun Trust Co., Ltd. <sup>2</sup>	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Yantai Xinzhentianying Equity Investment Center (Limited Partnership) <sup>2</sup>	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 <sup>1</sup>	Beneficial owner	H Shares	8,449,000 (L)	2.32	0.71
YHTH <sup>1</sup>	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 entered into between the Company and Dingrong Environmental Protection in relation to the Disposal;
- (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 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);
- (d) 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;
- (e) 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);
- (f) 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;
- (g) 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;

- (h) 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;
- (i) 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;
- (j) 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);
- (k) 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;
- (l) 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;
- (m) 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;

- (n) 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;
- (o) 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;
- (p) 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
- (q) 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 independent valuation report from Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd.\* (中威正信(北京)資產評估有限公司) in respect of the valuation of the Target Company, the summary of which is set out in Appendix II to this circular;
- (e) the material contracts referred to in the paragraph headed “Material Contracts” in this appendix; and
- (f) this circular.

\* *For identification purposes only*