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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)

POTENTIAL DISCLOSEABLE TRANSACTION THROUGH PUBLIC TENDER

This announcement is made by the Company pursuant to the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance and Rule 13.09 of the Listing Rules.

THE POTENTIAL DISPOSAL

The Company has resolved to dispose of the Disposal Interest, being the 51% equity interest held by the Company in Dongting Water. Since the Company is a State-owned enterprise, the Disposal Interest constitutes a State-owned asset and the disposal of which is required to undergo the process of Public Tender through an approved equity exchange in accordance with the relevant PRC laws and regulations governing the disposal of State-controlled assets. The Potential Disposal will be carried out through YNEX and the successful bidder will enter into the Equity Transaction Agreement with the Company according to the relevant rules and regulations of YNEX.

The Minimum Consideration, being the initial bidding price for the Disposal Interest, is expected to be RMB76,500,000, which was determined based on the preliminary asset appraised value of the Disposal Interest on 31 December 2020 and “the capital for investing in Dongting Water + 10% annualized rate of return”, whichever is higher. As at the date of this announcement, the Valuation Report has not yet been finalized, which will be finalized before the formal tender notice is issued, and thus the asset appraised value is subject to the finalized Valuation Report. The final Consideration will depend on the final bid price of the Public Tender, but will not be less than the Minimum Consideration in any event.

* For identification purposes only

IMPLICATIONS UNDER THE LISTING RULES

Using the Minimum Consideration as the basis of calculation, the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Potential Disposal is more than 5% but all less than 25%. Therefore, the Potential Disposal, if materialized, based on the Minimum Consideration, is expected to constitute a discloseable transaction of the Company subject to the notification and announcement requirements under Chapter 14 of the Listing Rules. Upon completion of the Potential Disposal, the Group will cease to hold any equity interest in Dongting Water which in turn will cease to become a subsidiary of the Group.

As the Potential Disposal may or may not proceed, Shareholders and potential investors should exercise caution when dealing in the Shares.

BACKGROUND

The Company has resolved to dispose of the Disposal Interest, being the 51% equity interest held by the Company in Dongting Water. Since the Company is a State-owned enterprise, the Disposal Interest constitutes a State-owned asset and the disposal of which is required to undergo the process of Public Tender through an approved equity exchange in accordance with the relevant PRC laws and regulations governing the disposal of State-controlled assets. The Potential Disposal will be carried out through YNEX and the successful bidder will enter into the Equity Transaction Agreement with the Company according to the relevant rules and regulations of YNEX.

THE POTENTIAL DISPOSAL THROUGH THE PUBLIC TENDER

1. The Disposal Interest

Dongting Water was incorporated in PRC in November 2015 and is principally engaged in investment in water conservancy projects, water projects, solid waste treatment projects and environmental control projects; design, research and development, production and sales of environmental protection equipment, purification equipment and water treatment equipment; and management and escrow of engineering projects. As at the date of this announcement, Dongting Water is a 51%-owned subsidiary of the Company. The remaining equity interest in Dongting Water is held as to 34% by Yueyang Construction and Investment and 15% by Yueyang Xincheng, the ultimate beneficial owners of both is the State-owned Assets Supervision and Administration Commission of Yueyang Municipal People's Government.

Set out below is the key audited financial information for the financial year ended 31 December 2019 and the key unaudited financial information for the financial year ended 31 December 2020 of Dongting Water, both prepared according to the PRC accounting standards.

	For the year ended	
	31 December	31 December
	2019	2020
	<i>RMB</i>	<i>RMB</i>
	<i>(audited)</i>	<i>(unaudited)</i>
Operating revenue	Nil	Nil
Profit before tax	Nil	Nil
Profit after tax	Nil	Nil

The unaudited total assets and equity of owners of Dongting Water as at 31 December 2020 amounted to RMB192,517,422.04 and RMB98,905,877.16, respectively. The preliminary appraised value of the total assets and the entire equity interest of Dongting Water as at 31 December 2020 by the PRC Valuer amounted to RMB210,904,500 and RMB112,356,200, respectively. As at the date of this announcement, the Valuation Report has not yet been finalized, which will be finalized before the formal tender notice is issued, and thus the aforesaid appraised values are subject to the finalized Valuation Report.

2. Major Terms of the Potential Disposal

A. Qualifications of the Potential Bidders

The potential bidders shall satisfy, including but not limited to, the following descriptions and qualifications:

1. the potential bidder must be a validly existing enterprise incorporated in the PRC; and
2. the potential bidder must not be a connected person (as defined in Chapter 14A of the Listing Rules) of the Company.

B. Date and procedures of the Public Tender

The Company will have to submit to YNEX the tender notice setting out, inter alia, (i) the Minimum Consideration; (ii) the principal terms of the bidding; and (iii) descriptions and qualifications of the potential bidders. As the Company is the controlling shareholder of Dongting Water, the tender process will include pre-tender and formal tender. The Company will submit the tender notice to YNEX as soon as practicable.

The Publication Period will be 20 Working Days from the date of the pre-tender notice and 20 Working Days from the date of the formal tender notice. During the Publication Period, qualified bidders may indicate their intention to purchase the Disposal Interest and register themselves as interested bidders. Upon the expiry of the Publication Period, YNEX will notify the Company of the identity of the successful bidder. Upon the notification of the successful bidder (being the highest bidder) by YNEX, the Company is required to enter into the Equity Transaction Agreement with such successful bidder.

As at the date of this announcement, material information of the Equity Transaction Agreement including the bidder(s), final Consideration, payment, delivery and transfer time has not been determined. The Company will enter into the Equity Transaction Agreement upon confirmation of the successful bidder and perform its relevant approval procedures and information disclosure obligations. As at the date of this announcement, no agreement has been entered into between the Group and any other party in relation to the Potential Disposal.

C. Consideration

The Minimum Consideration, being the initial bidding price for the Disposal Interest, is expected to be RMB76,500,000, which was determined based on the preliminary asset appraised value of the Disposal Interest on 31 December 2020 and “the capital for investing in Dongting Water + 10% annualized rate of return”, whichever is higher. As at the date of this announcement, the Valuation Report has not yet been finalized, which will be finalized before the formal tender notice is issued, and thus the asset appraised value is subject to the finalized Valuation Report.

The final Consideration will depend on the final bid price of the Public Tender, but will not be less than the Minimum Consideration in any event.

The Consideration shall be made in accordance with the time and method agreed in the Equity Transaction Agreement in the manner determined by the transferor and transferee of the Disposal Interest.

REASONS FOR AND BENEFITS OF THE POTENTIAL DISPOSAL

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

The Directors are of the view that the Potential Disposal and the transactions contemplated thereunder will be on normal commercial terms which are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

INFORMATION ABOUT THE GROUP

The Group is one of the leading integrated service providers in the municipal wastewater treatment and water supply industries in the PRC. The major business of the Group includes investment, construction and management services for urban water supply, wastewater treatment, solid waste treatment and environmental governance projects; sales of equipment and other environmental protection related services.

IMPLICATIONS UNDER THE LISTING RULES

Using the Minimum Consideration as the basis of calculation, the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Potential Disposal is more than 5% but all less than 25%. Therefore, the Potential Disposal, if materialized, based on the Minimum Consideration, is expected to constitute a discloseable transaction of the Company subject to the notification and announcement requirements under Chapter 14 of the Listing Rules. Upon completion of the Potential Disposal, the Group will cease to hold any equity interest in Dongting Water which in turn will cease to become a subsidiary of the Group.

As the Potential Disposal may or may not proceed, Shareholders and potential investors should exercise caution when dealing in the Shares.

DEFINITIONS

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

“Company”	Yunnan Water Investment Co., Limited* (雲南水務投資股份有限公司), a joint stock limited liability company incorporated in the PRC, whose H Shares are listed on the Main Board of the Stock Exchange (stock code: 6839);
“Consideration”	the consideration for the Disposal Interest payable by the transferee under the Equity Transaction Agreement;
“Director(s)”	the director(s) of the Company;
“Disposal Interest”	the 51% equity interest in Dongting Water held by the Company;
“Dongting Water”	Yueyang Dongting Water Investment Co., Ltd.* (岳陽市洞庭水務投資有限公司), a company incorporated in the PRC with limited liability and is owned as to 51% by the Company as at the date of this announcement;
“Equity Transaction Agreement”	an equity transaction agreement to be entered into between the Company and the successful bidder of the Public Tender in respect of the Disposal Interest according to the rules and regulations of YNEX;

“Group”	the Company and its subsidiaries;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Minimum Consideration”	the minimum consideration for the Disposal Interest, being the initial bidding price of RMB76,500,000, which was determined based on the asset appraised value as shown in the Valuation Report (to be finalized) and “the capital for investing in Dongting Water + 10% annualized rate of return”, whichever is higher;
“Potential Disposal”	the potential disposal of the Disposal Interest by the Group;
“PRC” or “State”	the People’s Republic of China, for the purpose of this announcement only, excluding Hong Kong, Macau Special Administrative Region and Taiwan;
“PRC Valuer”	Hunan Hengli Asset Evaluation Co., Ltd.* (湖南恒立資產評估有限公司), an independent PRC asset appraisal company;
“Public Tender”	the public tender for the Potential Disposal through YNEX;
“Publication Period”	the publication period (including the pre-tender period and the formal tender period) for the Public Tender during which qualified bidders may indicate their intention to purchase the Disposal Interest and register themselves as interested bidders;
“RMB”	Renminbi, the lawful currency of the PRC;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Valuation Report”	the asset valuation report on the equity attributable to owners of Dongting Water issued by the PRC Valuer, and as at the date of this announcement, the Valuation Report has not yet been finalized, which will be finalized before the formal tender notice is issued, and thus the final figures are subject to the finalized Valuation Report;
“Working Day(s)”	a day other than Saturday, Sunday and statutory holiday in the PRC, on which commercial banks in the PRC are open for normal business;

“YNEX”	Yunnan Equity Exchange Co. Ltd.* (雲南產權交易所有限公司), an institution authorised by the Yunnan Provincial State-owned Assets Supervision and Administration Commission to transact assets and equity of State-owned enterprises under the Yunnan Provincial Government;
“Yueyang Construction and Investment”	Yueyang Construction and Investment Group Co., Ltd.* (岳陽市城市建設投資集團有限公司), a company incorporated in the RPC with limited liability and mainly engaged in investment and construction of urban infrastructures, management and operation of State-owned assets mandated by the Yueyang Municipal Government and franchises in cities;
“Yueyang Xincheng”	Yueyang Dongting Xincheng Investment, Construction and Development Co., Ltd.* (岳陽市洞庭新城投資建設開發有限公司), a company incorporated in the RPC with limited liability and mainly engaged in construction of urban infrastructures, land development and comprehensive environmental control; and
“%”	per cent.

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

Kunming, the PRC
4 March 2021

As at the date of this announcement, the executive Director are Mr. Yu Long (Vice Chairman) and Mr. Yang Fang, the non-executive Directors are Mr. Li Jialong (Chairman), Ms. Li Bo, Mr. Dai Richeng and Mr. Chen Yong, and the independent non-executive Directors are Mr. Liu Shuen Kong, Mr. Zhong Wei and Mr. Zhou Beihai.

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