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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)**

## **ANNOUNCEMENT**

### **DISCLOSEABLE AND CONNECTED TRANSACTION FURTHER ACQUISITION OF 40% EQUITY INTEREST IN YUNNAN ZHENGXIAO ENVIRONMENTAL PROTECTION INVESTMENT CO., LTD.**

#### **THE ACQUISITION**

The Board is pleased to announce that on 24 October 2016 (after trading hours), the Company has entered into the Equity Transfer Agreement with the Vendor, pursuant to which the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Shares for a consideration of RMB220,000,000 plus the Additional Consideration (subject to the fulfillment of certain conditions precedent as set out below).

As of the date of the Equity Transfer Agreement, the Company holds 60% equity interest in the Target Company, which is a non-wholly owned subsidiary of the Company. Upon Completion, the Company will hold 100% equity interest in the Target Company.

#### **IMPLICATION OF THE LISTING RULES**

As at the date of this announcement, the Target Company is a subsidiary held by the Company as to 60%, and the remaining 40% equity interest is held by the Vendor. As the Vendor is a substantial shareholder of the Target Company, the Vendor is a connected person of the Company at the subsidiary level. As such, the

Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and shareholders' approval requirements unless otherwise exempted under Chapter 14A of the Listing Rules.

Further, as the transaction under the Previous Equity Transfer Agreement was completed within the past 12 months from the date of the Equity Transfer Agreement, the transaction under the Previous Equity Transfer Agreement and the Acquisition are aggregated in computing the applicable percentage ratios pursuant to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios of the Acquisition are more than 5% and none of the applicable percentage ratios is more than 25%, the Acquisition also constitutes a discloseable transaction of the Company and is subject to the announcement and reporting requirements under Chapter 14 of the Listing Rules.

Given that the Acquisition is (i) on normal commercial terms; (ii) the Board has approved the Acquisition; and (iii) the independent non-executive Directors have confirmed that the terms of the Acquisition are fair and reasonable, the Acquisition is on normal commercial terms and in the interest of the Company and the Shareholders as a whole, pursuant to Rule 14A.101 of the Listing Rules, the Acquisition is exempt from the circular, independent financial advice and independent Shareholders' approval requirements and is subject to only the announcement and reporting requirements under Chapter 14A of the Listing Rules.

## **INTRODUCTION**

Reference is made to the announcement of the Company dated 20 December 2015 in relation to the acquisition of the 60% equity interest in the Target Company by the Company from the Vendor at a consideration of RMB300,000,000 (subject to the relevant adjustment) and pursuant to the Previous Equity Transfer Agreement. After the completion of the Previous Equity Transfer Agreement and the transactions contemplated thereunder as stated in such announcement, the Target Company is held by the Company as to 60% and as a subsidiary of the Company as at the date of this announcement. The remaining 40% equity interest in the Target Company is held by the Vendor as at the date of this announcement.

On 24 October 2016 (after trading hours), the Company has entered into the Equity Transfer Agreement with the Vendor, pursuant to which the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Shares.

## **EQUITY TRANSFER AGREEMENT**

The principal terms of the Equity Transfer Agreement are summarized below:

**Date:** 24 October 2016 (after trading hours)

**Parties:** (i) the Company (as purchaser)  
(ii) the Vendor (as vendor)

## **SALE SHARES**

Pursuant to the Equity Transfer Agreement, the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell, the Sale Shares representing 40% equity interest in the Target Company. The Sale Shares are free of any lien, charge and encumbrance.

## **PROJECT DEPOSIT AND EQUITY PLEDGE**

On 13 October 2016 and 20 October 2016, the Company paid deposits of RMB40,000,000 in total in connection with the Acquisition (“**Project Deposit**”) to the Vendor. On 22 September 2016, the Vendor and its related party, Yunnan Lidao Enterprise Co., Limited\* (雲南力道實業有限公司), pledged 100% equity interest jointly held by them in Zhaotong City Zhaotou Dagan Huanglianhe Tourism Development Co., Limited\* (昭通市昭投大關黃連河旅遊開發有限公司), a company established in the PRC, in favour of the Company for the purpose of securing the Project Deposit. As at the date of this announcement, the Vendor has provided the original of the relevant Notice of Registration of Equity Pledge (《質押登記設立通知書》) to the Company.

The purchaser may, having signed the Equity Transfer Agreement and completed registration or filing for the transfer of the Sale Shares with the industrial and commercial authority, apply the Project Deposit towards deducting the consideration payable by the Company to the Vendor.

## **CONSIDERATION AND ADDITIONAL CONSIDERATION**

The amount of consideration for the Acquisition is RMB220,000,000. Such consideration shall be paid by the Company in three installments in the following manner:

(i) the first installment of consideration in the amount of RMB70,000,000 (the “**First Installment**”) shall be paid within 10 Business Days after the fulfillment of the conditions precedent to the First Installment;

- (ii) the second installment of consideration in the amount of RMB70,000,000 (the “**Second Installment**”) shall be paid within 10 Business Days after the fulfillment of the conditions precedent to the Second Installment; and
- (iii) the third installment of consideration in the amount of RMB80,000,000 (the “**Third Installment**”) shall be paid within 10 Business Days after the fulfillment of the conditions precedent to the Third Installment.

The amount of consideration for the Acquisition was determined by the Company and the Vendor upon arm’s-length negotiations having taken into consideration a number of relevant factors, among others, (i) the capacity of medical waste treatment of 30 tonnes per day of the two production lines currently constructed and operated by the Target Company; (ii) the Target Company holds the hazardous waste operation license by the Kunming Municipal Environmental Protection Bureau, the concession right was granted for 25 years, and it is the only service provider in the municipal area of Kunming city in accordance with the law to collect, transport and incinerate medical wastes generated from medical waste producers; (iii) the track record and existing customer base of the Target Company, including the number of medical institutions, chargeable hospital beds, pharmaceutical plants, pharmaceutical operation units and animal carcass producing units in Kunming city; and (iv) the newly-built two production lines in second phase of the Target Company. The consideration for the Acquisition will be financed by the Group’s internal resources.

### **Additional Consideration**

Subject to the fulfillment of all of the following conditions precedent, the Company shall pay the additional consideration in the amount of RMB10,000,000 (the “**Additional Consideration**”) to the Vendor:-

- (i) the construction, installation and the approval for project completion and acceptance in relation to the second phase production line of the Target Company (inclusive of external facilities and equipment constructed for the purpose of the new category) having been completed; the environmental approval having been obtained and the engineering application procedures during the construction process having been completed in compliance with the relevant laws and regulations;
- (ii) the Target Company having completed the administrative procedures for the purpose of the addition of HW02 (medical waste) and HW03 (waste pharmaceuticals and pharmaceuticals) (subject to the prevailing National Hazardous Waste Inventory (國家危險廢物名錄)) into the Hazardous Waste

categories as the approved scope of operation for the Hazardous Waste Operational Permit (危險廢物經營許可證) and the new Hazardous Waste Operational Permit (危險廢物經營許可證) having been obtained;

- (iii) the Target Company having entered into hazardous waste treatment contracts with at least 5 companies which produce HW02 and HW03 categories of hazardous waste, whereby the stipulated treatment capacity under such contracts shall not be less than 1,200 tonnes per year; and
- (iv) the second phase production line having been operated for at least 3 months in a normal manner from the date of the first commencement of its commercial operation.

## **CONDITIONS PRECEDENT**

Pursuant to the Equity Transfer Agreement, the above three installments of payment shall be subject to the fulfillment of the following conditions precedent by the Long Stop Date or otherwise waived by the Company in writing:

### **1. Conditions precedent to the First Installment**

- (i) the Equity Transfer Agreement having been duly and effectively executed by the Vendor and the Company; and
- (ii) all necessary consents from third parties (including without limitation, the Board and/or any competent regulatory authorities), if any, in connection with the transactions contemplated under the Equity Transfer Agreement having been obtained.

### **2. Conditions precedent to the Second Installment**

- (i) The registration or filing with the industry and commerce registration authority for the transfer of the Sale Shares having been completed;
- (ii) the Entrusted Loan (including without limitation the principal, interest and other payment obligations thereof) having been repaid by the Vendor and the relevant document evidencing such repayment having been provided to the Company; and
- (iii) the Vendor having repaid the outstanding loan amount of RMB7,832,763.33 to the Target Company.

### 3. **Conditions precedent to the Third Installment**

- (i) within 20 Business Days from the date of the Equity Transfer Agreement, the Vendor having arranged to publish an announcement in respect of the settlement of debts and liabilities of the Target Company in newspapers (such as Yunnan Daily\* (雲南日報) and Chuncheng Evening Newspaper\* (春城晚報)) for no less than of 45 days, and no creditor of the Target Company having made any claims for any debt or liability against the Target Company as at the date of the Third Installment;
- (ii) the Vendor having repaid and settled the outstanding amount of approximately RMB30,000,000 (including without limitation the principal, interest and other payment obligations thereof) due to various peer-to-peer financiers (the “**Outstanding Sum Due to P2P Financiers**”) to the satisfaction of the Company and the relevant documents evidencing such repayment having been provided. If the Vendor fails to repay and settle the entire Outstanding Sum Due to P2P Financiers, the Company shall have the right to deduct the difference between the entire amount of the Outstanding Sum Due to P2P Financiers and the entire amount of the repayment made by the Vendor pursuant to this sub-paragraph from the Third Installment; and
- (iii) the Vendor having resolved the issues in relation to the business, legal, financial and other matters of the Target Company to the satisfaction of the Company.

Further, each of the above three installment payments shall be subject to the fulfillment of the following conditions precedent:

### 4. **Other conditions precedent to Completion of Transfer**

- (i) all of the warranties given by the Vendor under the Equity Transfer Agreement having remained true, complete, valid and accurate up to each of the above three installment payment date;
- (ii) the Vendor having fulfilled and complied with all the commitments and obligations made under the Equity Transfer Agreement in all respects;
- (iii) if the entering into of the Equity Transfer Agreement requires any third party consent under the relevant laws and regulations or any agreements (if any), all such third party consents in writing having been obtained;

- (iv) the Target Company having obtained all the compliance documents, qualification certificates, permits and approval documents required for it to engage in the production and operation of the permitted scale as at the Reference Date, including without limitation the environmental impact assessment, environmental acceptance, project approval or filing procedures; and
- (v) there having been no material adverse change up to each of the above three installment payment dates.

If the above conditions precedent are not fulfilled by the Long Stop Date due to changes in laws or force majeure factors, upon confirmation by the Company, the fulfillment time for the relevant conditions precedent may be postponed accordingly. If the Vendor is still unable to fulfill such conditions precedent upon expiry of the postponement, the Company shall be entitled to terminate the Acquisition by the issuance of a notice in writing to the Vendor.

## **COMPLETION OF TRANSFER**

The Transfer Date shall be a day within fifteen Business Days after the payment of the First Installment and the registration procedure for change of shareholdings of the Target Company at the industry and commerce authority has been completed. After Completion of Transfer, the Company will hold 100% equity interest in the Target Company.

## **INFORMATION OF THE TARGET COMPANY**

The Target Company is a limited liability company incorporated in the PRC, its scope of business is primarily medical waste treatment, technical consultancy in environmental protection areas, technical services, technical development, and sales of environmental protection materials, environmental protection equipment, wires and cables, etc.

According to the unaudited financial information of the Target Company, the net asset value attributable to the shareholders of the Target Company as at 30 June 2016 was approximately RMB76,642,380 and the net profit for the six months ended 30 June 2016 was approximately RMB21,802,576.



The audited net profit (before and after taxation) attributable to the shareholders of the Target Company for the two years ended 31 December 2014 and 2015, prepared based on the generally accepted accounting principles and practices in the PRC, is set out below:

	<b>For the year ended 31 December 2014</b>	<b>For the year ended 31 December 2015</b>
	<i>RMB ('000)</i>	<i>RMB ('000)</i>
Net profit before tax attributable to the shareholders of the Target Company	47,186	53,053
Net profit after tax attributable to the shareholders of the Target Company	42,372	45,110

To the best of the Company's knowledge and after making reasonable enquiries, the aggregate original acquisition cost of 100% of the total issued share capital of the Target Company to the Vendor is approximately RMB30,500,000.

#### **INFORMATION OF THE VENDOR**

The Vendor is a limited liability company incorporated in the PRC, which is primarily engaged in the production and sales of wires and cables, PVC cable materials, metal wires, rubber products, electric motors, electric assisted bicycles, motor car accessories, tractor accessories and lighting electric components, and sales of environmental protection equipment and technical treatment, etc. As at the date of this announcement, the Vendor holds 40% equity interest in the Target Company.

#### **REASONS FOR AND BENEFITS OF THE ACQUISITION**

The Group is one of the leading integrated service providers in urban sewage water treatment and water supply industries in Yunnan Province of the PRC. The principal businesses of the Group include (i) providing water supply, sewage water treatment and solid waste treatment in various PRC cities and South East Asia; (ii) investment, construction and management of environmental projects; and (iii) sales of equipment and other environmental related services. The corporate strategy of the Group is to operate its businesses based in Yunnan Province while continuing to seek investment opportunities to expand its business to other regions for a stable source of income.



As the Board considers that Yunnan Province is a business base of the Group, in order to further develop and penetrate into the local market, the Group intends to expand its business from the water sector to the solid waste treatment sector in Yunnan Province. Upon Completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company, and is the only company that can lawfully carry on the business of medical waste treatment in Kunming City. So far, the business of the Target Company has been successfully expanded from Kunming City to Zhaotong City, Yunnan Province. In the future, the business of the Target Company will continue to extend to other regions in Yunnan Province. As a result, the Acquisition will have significant implications on the Group for the future development of medical waste treatment business in the market of Yunnan Province, and is consistent with the business and development strategy of the Group.

After taking the above factors into account, the Directors consider that the terms of the Equity Transfer Agreement are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

#### **IMPLICATIONS OF THE LISTING RULES**

As at the date of this announcement, the Target Company is a subsidiary held by the Company as to 60%, and the remaining 40% equity interest is held by the Vendor. As the Vendor is a substantial shareholder of the Target Company, the Vendor is a connected person of the Company at the subsidiary level. As such, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the announcement, reporting and shareholders' approval requirements unless otherwise exempted under Chapter 14A of the Listing Rules.

Further, as the transaction under the Previous Equity Transfer Agreement was completed within the past 12 months from the date of the Equity Transfer Agreement, the transaction under the Previous Equity Transfer Agreement and the Acquisition are aggregated in computing the applicable percentage ratios pursuant to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios of the Acquisition are more than 5% and none of the applicable percentage ratios is more than 25%, the Acquisition also constitutes a discloseable transaction of the Company and is subject to the announcement and reporting requirements under Chapter 14 of the Listing Rules.

Given that the Acquisition is (i) on normal commercial terms; (ii) the Board has approved the Acquisition; and (iii) the independent non-executive Directors have confirmed that the terms of the Acquisition are fair and reasonable, the Acquisition is on normal commercial terms and in the interest of the Company and the

Shareholders as a whole, pursuant to Rule 14A.101 of the Listing Rules, the Acquisition is exempt from the circular, independent financial advice and independent Shareholders' approval requirements and is subject to only the announcement and reporting requirements under Chapter 14A of the Listing Rules.

No Director has a material interest in the Acquisition and none of them is required to abstain from voting on the Board resolution for approving the Acquisition.

## **DEFINITIONS**

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

“Acquisition”	the acquisition of the Sale Shares by the Company from the Vendor in accordance with the terms and conditions of the Equity Transfer Agreement
“Board”	the board of Directors
“Business Day(s)”	any day other than a Saturday, Sunday or statutory holiday announced by the PRC government from time to time;
“Company”	Yunnan Water Investment Co., Limited* (雲南水務投資股份有限公司), a joint stock limited liability company incorporated in the PRC, its H Shares are listed on the Main Board of the Stock Exchange (Stock Code: 6839);
“Completion of Transfer”	completion of the equity transfer under the Equity Transfer Agreement;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Domestic Share(s)”	the issued ordinary shares at the nominal value of RMB1.00 per share in the share capital of the Company which are subscribed for or credited as paid up in RMB;
“Equity Transfer Agreement”	the equity interest transfer agreement entered into amongst the Company and the Vendor on 24 October 2016 with respect to the Acquisition;

“Entrusted Loan”	the loan in the amount of RMB35,000,000 provided by Fudian Bank (as lender) to the Target Company (as borrower) pursuant to the Fudian Bank entrusted loan agreement (富滇銀行委託貸款協議書) dated 9 December 2014;
“H Share(s)”	the issued ordinary shares at the nominal value of RMB1.00 per share in the share capital of the Company and listed on the Main Board of the Stock Exchange (Stock Code: 6839);
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time;
“Long Stop Date”	31 December 2016;
“PRC”	The People’s Republic of China, for the purpose of this announcement only, excluding Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“Previous Equity Transfer Agreement”	the equity interest transfer agreement entered into amongst the Company and the Vendor on 18 December 2015 with respect to the acquisition of the 60% equity interest of the Target Company;
“Reference Date”	30 June 2015;
“RMB”	Renminbi, the lawful currency of PRC;
“Sale Shares”	the shares representing 40% equity interest in the share capital of the Target Company;
“Share(s)”	Domestic Shares and/or H Shares;
“Shareholder(s)”	holder(s) of Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary/(ies)”	has the meaning ascribed to it under the Listing Rules;
“Target Company”	Yunnan Zhengxiao Environmental Protection Investment Co., Ltd.* (雲南正曉環保投資有限公司), a limited liability company incorporated in the PRC;

“Transfer Date”	the date when Completion of Transfer occurs, which is the third Business Day after completion of the industry and commerce registration procedure for change of shareholdings of the Target Company;
“Vendor”	Yunnan Zhengxiao Cables Co., Ltd.* (雲南正曉電纜有限公司), a limited liability company incorporated in the PRC, which holds 40% equity interest in the Target Company; and
“%”	per cent.

By Order of the Board of  
**Yunnan Water Investment Co., Limited\***  
**Xu Lei**  
*Chairman*

Kunming, PRC  
24 October 2016

*As at the date of this announcement, the executive Directors are Mr. Yu Long, Mr. Dai Richeng, Mr. Liu Xujun and Mr. Huang Yunjian, the non-executive Directors are Mr. Xu Lei (Chairman), Mr. Jiao Jun, Mr. He Yuanping and Mr. Feng Zhuangzhi, and the independent non-executive Directors are Mr. Kwok For Chi, Mr. Hu Song, Mr. Ma Shihao and Mr. Ren Gangfeng.*

*\* For identification purposes only*