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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: FINANCE LEASE AGREEMENT

FINANCE LEASE AGREEMENT

The Board is pleased to announce that, on 9 December 2020 (after trading hours), Dali Water entered into the Finance Lease Agreement with BoCom Leasing, pursuant to which, BoCom Leasing has agreed to, among other things, (i) acquire the Leased Assets from the Lessee at a consideration of RMB60,000,000 and (ii) lease back the Leased Assets to the Lessee with the Lease Term for 60 months and an estimated total lease payment of RMB68,626,841.60, which will be paid by the Lessee to BoCom Leasing in 20 equal installments.

IMPLICATIONS OF THE LISTING RULES

On 20 September 2020, HLJ Yunshui, a non-wholly-owned subsidiary of the Company, and BoCom Leasing entered into the First BoCom Finance Lease Agreement. On 27 November 2020, Dali Water and BoCom Leasing entered into the Second BoCom Finance Lease Agreement. Since the respective transactions under the First BoCom Finance Lease Agreement and the Second BoCom Finance Lease Agreement were completed within 12 months prior to the date of the Finance Lease Agreement, the transactions under the First BoCom Finance Lease Agreement and the Second BoCom Finance Lease Agreement and the transactions under the Finance Lease Agreement shall be aggregated to calculate the applicable percentage ratios according to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios of the transactions under the First BoCom Finance Lease Agreement, the Second BoCom Finance Lease Agreement and the Finance Lease Agreement on an aggregated basis are more than 25% but less than 100%, the Finance Lease Agreement constitutes a major transaction of the Company and is therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

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

The Company intends to obtain a written approval for the Finance Lease Agreement 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 Finance Lease Agreement.

A circular containing, among other things, (i) further information about the Finance Lease Agreement; and (ii) other discloseable information under the Listing Rules will be despatched by the Company to the Shareholders in accordance with the Listing Rules and the relevant requirements under the Articles of Association before 29 December 2020.

FINANCE LEASE AGREEMENT

The Board is pleased to announce that, on 9 December 2020 (after trading hours), Dali Water entered into the Finance Lease Agreement with BoCom Leasing. The principal terms of the Finance Lease Agreement are summarized as follows:

Date: 9 December 2020 (after trading hours)

Parties: (i) Dali Water (as the Lessee); and

(ii) BoCom Leasing (as the Lessor)

The Leased Assets

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

Sale of the Leased Assets to the Lessor

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

Conditions precedent

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

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

Earnest money

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

Transfer and delivery of the Leased Assets

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

Leaseback of the Leased Assets to the Lessee

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

Disposal of the Leased Assets

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

REASONS FOR AND BENEFITS OF ENTERING INTO THE FINANCE LEASE AGREEMENT

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

INFORMATION ABOUT THE PARTIES TO THE FINANCE LEASE AGREEMENT

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

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

IMPLICATIONS OF THE LISTING RULES

On 20 September 2020, HLJ Yunshui, a non-wholly-owned subsidiary of the Company, and BoCom Leasing entered into the First BoCom Finance Lease Agreement. On 27 November 2020, Dali Water and BoCom Leasing entered into the Second BoCom Finance Lease Agreement. Since the respective transactions under the First BoCom Finance Lease Agreement and the Second BoCom Finance Lease Agreement were completed within 12 months prior to the date of the Finance Lease Agreement, the transactions under the First BoCom Finance Lease Agreement and the Second BoCom Finance Lease Agreement and the transactions under the Finance Lease Agreement shall be aggregated to calculate the applicable percentage ratios according to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios of the transactions under the First BoCom Finance Lease Agreement, the Second BoCom Finance Lease Agreement and the Finance Lease Agreement on an aggregated basis are more than 25% but less than 100%, the Finance Lease Agreement constitutes a major transaction of the Company and is therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

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

The Company intends to obtain a written approval for the Finance Lease Agreement 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 Finance Lease Agreement.

A circular containing, among other things, (i) further information about the Finance Lease Agreement; and (ii) other discloseable information under the Listing Rules will be despatched by the Company to the Shareholders in accordance with the Listing Rules and the relevant requirements under the Articles of Association before 29 December 2020.

DEFINITIONS

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

“Articles of Association”	the articles of association of the Company;
“Board”	the board of Directors of the Company;
“BoCom Leasing”	Bank of Communications Financial Leasing Co., Ltd., a company established in the PRC with limited liability, which is the Lessor under the Finance Lease Agreement;
“Closely Allied Group”	the closely allied group of Shareholders comprising (i) Yunnan Province Water with its acting in concert parties (Mr. Liu Xujun, Mr. Huang Yunjian and Mr. Wang Yong); (ii) Beijing OriginWater Technology Co., Ltd.* (北京碧水源科技股份有限公司); and (iii) Caiyun International Investment Limited (彩雲國際投資有限公司), 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 date of 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);
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules;
“Dali Water”	Dali Water Investment Co. Ltd.* (大理水務產業投資有限公司), a company established in the PRC with limited liability, a controlling subsidiary owned by the Company as to 40.27%, which is the Lessee under the Finance Lease 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;
“Director(s)”	the director(s) of the Company;
“Finance Lease Agreement”	the Finance Lease Agreement dated 9 December 2020 between the Lessor and the Lessee, pursuant to which the Lessee agreed to sell the Leased Assets to the Lessor at the consideration of RMB60,000,000 and the Lessor agreed to leaseback the Leased Assets to the Lessee during the Lease Term;

“First BoCom Finance Lease Agreement”	the finance lease agreement dated 20 September 2020 between HLJ Yunshui and BoCom Leasing;
“Group”	the Company and all its subsidiaries;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“HLJ Yunshui”	HLJ Yunshui Environmental Technology Services Co., Ltd, a company established in the PRC with limited liability, a non-wholly-owned subsidiary indirectly owned by the Company as to 99%, which is the lessee under the First BoCom Finance Lease Agreement;
“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;
“Leased Assets”	water supply and drainage pipeline network facilities in Dali City owned by Dali Water, which will be sold by the Lessee to the Lessor and shall be leased back to the Lessee according to the Finance Lease Agreement;
“Lease Term”	the lease term of 60 months under the Finance Lease Agreement;
“Lessee”	Dali Water;
“Lessor”	BoCom Leasing;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time);
“LPR”	the loan prime rate;
“PRC”	the People’s Republic of China, for the purpose of this announcement only, excluding Hong Kong, Macau Special Administrative Region and Taiwan;

“RMB”	Renminbi, the lawful currency of the PRC;
“Second BoCom Finance Lease Agreement”	the finance lease agreement dated 27 November 2020 between Dali Water and BoCom Leasing;
“Share(s)”	the Domestic Shares and/or H Shares;
“Shareholder(s)”	the 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; and
“%”	per cent.

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

Kunming, the PRC
9 December 2020

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

* *For identification purposes only*