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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)

FRAMEWORK AGREEMENT ON POTENTIAL TRANSACTION

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The Board is pleased to announce that on 15 January 2021, the Company entered into the Framework Agreement with Qianjiang Biochemical and Haining Water Investment Group, pursuant to which the Parties proposed that Qianjiang Biochemical will purchase the Underlying Assets by means of non-public issue of shares to Haining Water Investment Group and the Company. Upon completion of the Potential Transaction, Qianjiang Biochemical will hold 100% equity in Zhejiang Haiyun Environmental Protection, 40% equity in Capital Water, 40% equity in Shikang Water and 40% equity in Lvdong Haiyun.

FRAMEWORK AGREEMENT

The principal terms of the Framework Agreement are set out as follows:

Date: 15 January 2021

Parties:

1. Qianjiang Biochemical;
2. Haining Water Investment Group; and
3. the Company

Subject: Qianjiang Biochemical is intended to purchase (i) 51% equity in Zhejiang Haiyun Environmental Protection, 40% equity in Capital Water, 40% equity in Shikang Water, 40% equity in Lvdong Haiyun held by Haining Water Investment Group, and (ii) 49% equity in Zhejiang Haiyun Environmental Protection held by the Company, by means of non-public issue of shares to Haining Water Investment Group and the Company. Upon completion of the Potential Transaction, Qianjiang Biochemical will hold 100% equity in Zhejiang Haiyun Environmental Protection, 40% equity in Capital Water, 40% equity in Shikang Water and 40% equity in Lvdong Haiyun.

Pricing basis and transaction method: The price for the Potential Transaction shall be determined by the Parties through negotiation on 31 December 2020, which is taken as the valuation reference date (the “**Valuation Reference Date**”), based on the appraised value of the Underlying Companies to be issued by an appraisal institution qualified for securities and futures business as jointly recognized by the Parties, and approved by/filed with the competent state-owned assets supervision and administration department.

Qianjiang Biochemical shall settle the transaction consideration to the Counterparties by means of issue of shares. The shares to be issued to the Counterparties are ordinary RMB-denominated shares with a par value of RMB1.00 each. The price of such shares shall be 90% of the average trading price of the shares of Qianjiang Biochemical for 20 trading days before the Pricing Reference Date, based on which the Share Issue Price is determined to be RMB4.43 per share. The final Share Issue Price is subject to approval at the general meeting of Qianjiang Biochemical.

The formula for calculating the number of shares to be issued by Qianjiang Biochemical to Haining Water Investment Group is: number of shares to be issued = price of assets to be purchased from Haining Water Investment Group under the Potential Transaction by means of issue of shares ÷ Share Issue Price. Haining Water Investment Group will voluntarily give up any fractional part of one share calculated based on the formula above.

The formula for calculating the number of shares to be issued by Qianjiang Biochemical to the Company is: number of shares to be issued = price of assets to be purchased from the Company under the Potential Transaction by means of issue of shares ÷ Share Issue Price. The Company will voluntarily give up any fractional part of one share calculated based on the formula above.

During the period from the Pricing Reference Date to the issue date, in case of other ex-right or ex-dividend events such as distribution of dividend, bonus issue, conversion of reserve fund into share capital, etc. occurred on the part of Qianjiang Biochemical, the Share Issue Price and number of shares to be issued shall be adjusted accordingly as required.

The final number of shares to be issued by Qianjiang Biochemical to Haining Water Investment Group and the Company to purchase the Underlying Assets is subject to consideration and approval at the general meeting of Qianjiang Biochemical and approval by the CSRC.

Delivery and transfer
of assets:

After the Framework Agreement becomes effective, the Parties shall make their best efforts to complete the procedures of delivering the Underlying Assets. From the date of completion of procedures for changes in industrial and commercial registration regarding the transfer of the Underlying Assets to the name of Qianjiang Biochemical as stipulated under the Framework Agreement, Qianjiang Biochemical will own 100% equity in Zhejiang Haiyun Environmental Protection, 40% equity in Capital Water, 40% in Shikang Water and 40% equity in Lvdong Haiyun.

Qianjiang Biochemical shall complete the procedures for applying for securities registration for the Counterparties and the procedures for changes in industrial and commercial registration of Qianjiang Biochemical at the Shanghai Stock Exchange and the China Securities Depository and Clearing Corporation Limited, Shanghai Branch within 30 days after obtaining the approval from the CSRC in accordance with the relevant requirements of the CSRC and Shanghai Stock Exchange in respect of the additional shares to be issued by Qianjiang Biochemical to the Counterparties. During the process, the Counterparties shall provide necessary cooperation to Qianjiang Biochemical.

Transitional arrangements:

During the Transitional Period, any gain or loss relating to the Underlying Assets shall be attributable to or borne by Qianjiang Biochemical. If any adjustment to the gain or loss arrangement during the Transitional Period is required in accordance with relevant laws and regulations and the relevant requirements of the CSRC based on the valuation method ultimately adopted, such adjustment shall be made accordingly in compliance with relevant laws and regulations and the requirements of the CSRC.

Accumulated undistributed profit:	Upon completion of the Potential Transaction, the undistributed profit accumulated by Qianjiang Biochemical shall be jointly enjoyed by the new and existing shareholders of Qianjiang Biochemical in proportion to their respective shareholdings in Qianjiang Biochemical upon completion of the Potential Transaction.
Lock-up period of shares:	The lock-up period of the shares in Qianjiang Biochemical acquired by the Counterparties as a result of the issue of shares to purchase assets shall be negotiated separately by the Parties in accordance with the formal proposal for the Potential Transaction and the relevant laws and regulations as well as the requirements of the CSRC and Shanghai Stock Exchange, and shall be agreed in a formal transaction agreement to be signed separately by the Parties.
Effective conditions:	<p>The Framework Agreement shall come into force from the date when the same is signed and sealed by the legal representatives or authorized representatives of the Parties, which is subject to the fulfillment of all of the following conditions:</p> <ol style="list-style-type: none"> 1. The board of directors of Qianjiang Biochemical has performed the statutory procedures to consider the relevant resolution on purchasing the Underlying Assets from the Counterparties by means of issue of shares; 2. The general meeting of Qianjiang Biochemical has performed the statutory procedures to consider and approve the relevant resolution on purchasing the Underlying Assets from the Counterparties by means of issue of shares; 3. The competent state-owned assets supervision and administration authority has approved or agreed with the issue of shares to purchase assets; and 4. The CSRC has approved the issue of shares to purchase assets by Qianjiang Biochemical.

REASONS FOR AND BENEFITS OF THE TRANSACTION

The Company will acquire the equity interests in Qianjiang Biochemical through the Potential Transaction. The Potential Transaction will enable the Company to improve the quality of its assets and enhance its ability to continue as a going concern, which is in line with the strategic development objective of the Company.

The Board is of the view that the terms of the Framework Agreement are fair and reasonable and on normal commercial terms, and are in the interest of the Company and the Shareholders as a whole.

INFORMATION OF THE PARTIES INVOLVED

Qianjiang Biochemical is a company incorporated in the PRC whose shares are listed and traded on the main board of Shanghai Stock Exchange (stock code: 600796). The main business of Qianjiang Biochemical includes production of veterinary drug, manufacturing, sales and services of biopesticide, enzyme preparations, gibberellin and citric acid, thermal power and others. Its controlling shareholder is Haining City Asset Management Company and its ultimate actual controller is Haining City Finance Bureau* (海寧市財政局). To the best knowledge of the Directors having made all reasonable enquiries, Qianjiang Biochemical and its ultimate beneficial owner (if applicable) are third parties independent from the Company and its connected persons (as defined in the Listing Rules).

Haining Water Investment Group is a company incorporated in the PRC. Its main business includes investment, development, construction, operation and management of water supply and wastewater infrastructure, wastewater treatment infrastructure and water-related projects. Its controlling shareholder is Haining City Asset Management Company and its ultimate actual controller is Haining City Finance Bureau* (海寧市財政局). To the best knowledge of the Directors having made all reasonable enquiries, Haining Water Investment Group and its ultimate beneficial owner (if applicable) are third parties independent from the Company and its connected persons (as defined in the Listing Rules).

INFORMATION OF ZHEJIANG HAIYUN ENVIRONMENTAL PROTECTION OF THE UNDERLYING COMPANIES

Zhejiang Haiyun Environmental Protection is a company incorporated in the PRC and is an associated company owned as to 49% by the Company. Its controlling shareholder is Haining Water Investment Group and its ultimate actual controller is Haining City Finance Bureau* (海寧市財政局). Its main business includes integrated environment protection and treatment, rectification of lakes and rivers, the investment, development, construction, operation and management of water supply and wastewater infrastructure, wastewater treatment infrastructure and environment-related projects, the research and development, design and sales of environmental protection equipment and the development of environmental sanitation technologies.

POSSIBLE LISTING RULES IMPLICATIONS

The Potential Transaction under the Framework Agreement is subject to the execution of the definitive agreement(s), and the parties may not enter into any definitive agreement on the Proposed Transaction. The Potential Transaction, if materialises, may constitute a major transaction of the Company under Chapter 14 of the Listing Rules. In this regard, the Company will comply with applicable disclosure and/or shareholders' approval requirements under the Listing Rules.

The Board wishes to emphasise that while the Framework Agreement is stated to be binding, the Potential Transaction is subject to the definitive agreement(s) being negotiated and agreed. As at the date of this announcement, (i) all salient terms and conditions of the Potential Transaction are still being negotiated and have not been finalised; and (ii) the Company has not entered into any definitive agreement. Shareholders and potential investors

of the Company are reminded that the Potential Transaction may or may not materialise. The Potential Transaction, if materialises, may constitute a major transaction of the Company under Chapter 14 of the Listing Rules. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company. Further announcement(s) relating to the Potential Transaction will be made by the Company as and when appropriate in accordance with the Listing Rules.

DEFINITIONS

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

“Board of Directors” or “Board”	the board of directors of the Company;
“Capital Water”	Haining Capital Water Co., Limited* (海寧首創水務有限責任公司);
“CSRC”	China Securities Regulatory Commission;
“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);
“Counterparties”	the Company and Haining Water Investment Group;
“Director(s)”	the director(s) of the Company;
“Framework Agreement”	the Framework Agreement in Relation to the Acquisition of Assets through Share Issuance (《發行股份購買資產的框架協議》) entered into among Qianjiang Biochemical, Haining Water Investment Group and the Company on 15 January 2021;
“Haining Water Investment Group”	Haining Municipal Water Investment Group Co., Limited* (海寧市水務投資集團有限公司);
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time;
“Lvdong Haiyun”	Haining Lvdong Haiyun Environmental Protection Energy Co., Ltd* (海寧綠動海雲環保能源有限公司);
“Parties”	the parties to the Framework Agreement, being Qianjiang Biochemical, Haining Water Investment Group and the Company;

“Potential Transaction”	the proposed transaction between the Parties to the Framework Agreement: (i) Qianjiang Biochemical’s purchase of 51% equity in Zhejiang Haiyun Environmental Protection, 40% equity in Capital Water, 40% equity in Shikang Water, 40% equity in Lvdong Haiyun held by Haining Water Investment Group, and (ii) 49% equity in Zhejiang Haiyun Environmental Protection held by the Company, by means of non-public issue of shares to Haining Water Investment Group and the Company;
“PRC”	the People’s Republic of China, for the purpose of this announcement only, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;
“Pricing Reference Date”	the announcement date of the resolutions of the first board meeting of Qianjiang Biochemical to consider issues related to the Potential Transaction;
“Qianjiang Biochemical”	Zhejiang Qianjiang Biochemical Co., Ltd.* (浙江錢江生物化學股份有限公司);
“RMB”	Renminbi, the lawful currency of the PRC;
“Share Issue Price”	90% of the average trading price of Qianjiang Biochemical shares for the 20 trading days prior to the Pricing Reference Date;
“Shikang Water”	Haining Shikang Water Printing Co., Ltd.* (海寧實康水務有限公司);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Transitional Period”	the period from the day following the Valuation Reference Date to the date of change of the industrial and commercial registration regarding the transfer of the Underlying Assets under the Potential Transaction to name of Qianjiang Biochemical (inclusive);
“Underlying Assets”	51% equity in Zhejiang Haiyun Environmental Protection, 40% equity in Capital Water, 40% equity in Shikang Water, 40% equity in Lvdong Haiyun held by Haining Water Investment Group, and 49% equity in Zhejiang Haiyun Environmental Protection held by the Company;
“Underlying Companies”	Zhejiang Haiyun Environmental Protection, Capital Water, Shikang Water, and Lvdong Haiyun;

“Zhejiang Haiyun
Environmental
Protection”

Zhejiang Haiyun Environmental Protection Company Limited* (浙
江海雲環保有限公司); and

“%”

per cent.

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

Kunming, the PRC
15 January 2021

As at the date of this announcement, the executive Directors 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.

* *For identification purposes only*