THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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.

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)

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION DEEMED DISPOSAL OF 23.958% EQUITY INTEREST IN THE TARGET COMPANY

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Opus Capital Limited
創富融資有限公司

The EGM of Yunnan Water Investment Co., Limited* will be held at Tuesday, 10:00 a.m. on 13 July 2021 at Conference Room 5th Floor, Yunnan Water, 2089 Haiyuan Bei Road, Gaoxin District, Kunming, Yunnan Province, the PRC. A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular. The proxy form for the EGM is enclosed herewith, and the same is also published on the website of the Hong Kong Exchanges and Clearing Limited (**www.hkexnews.hk**) and the website of the Company (**www.yunnanwater.cn**).

Whether or not you are able to attend the EGM, you are advised to complete and sign and return as soon as possible the enclosed proxy form in accordance with the instructions printed thereon. The proxy form for holders of H Shares should be returned to the Company's H Share registrar in Hong Kong, Tricor Investor Services Limited, located at 54th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, and the proxy form for holders of Domestic Shares should be returned to the secretariat of the Board at 5th Floor, Yunnan Water, 2089 Haiyuan Bei Road, Gaoxin District, Kunming, Yunnan Province, the PRC by no later than 24 hours before the time appointed for convening the EGM or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM, or any adjourned meeting, in person if you so wish.

* *For identification purposes only*

25 June 2021

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Announcement"	the announcement of the Company dated 17 June 2020 in relation to the discloseable transaction in respect of the First Capital Increase in the Target Company by YAM under the First Capital Injection Agreement
"Articles of Association"	the articles of association of the Company
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"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
"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)
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"connected transaction(s)"	has the meaning ascribed thereto under the Listing Rules
"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
"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
"EGM"	the extraordinary general meeting of the Company to consider and, if thought fit, approve, among other things, the Second Capital Injection Agreement, the Supplemental Agreement and the transactions contemplated thereunder

"First Capital Increase"	the subscription of equity interests in the Target Company by YAM under the terms and conditions of the First Capital Injection Agreement;
"First Capital Injection Agreement"	the capital injection agreement dated 17 June 2020 entered into among (i) the Company; (ii) YAM; and (iii) the Target Company in respect of the First Capital Increase
"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 Board Committee"	a committee under of the Board of Directors which is set up for the purpose of advising the Independent Shareholders on the Second Capital Increase, including all the independent non-executive Directors, namely Mr. Liu Shuen Kong, Mr. Zhong Wei and Mr. Zhou Beihai
"Independent Financial Adviser" or "Opus Capital"	Opus Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Second Capital Increase
"Independent Shareholders"	Shareholders other than YHTH and its associates
"Independent Third Party(ies)"	the 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"	ZhongHe Appraisal Co., Ltd.* (中和資產評估有限公司), an independent third party PRC valuer
"Latest Practicable Date"	21 June 2021
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
"PRC" or "the People's Republic of China" or "the 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

"Reorganisation"	the completion of the transfer of 50.59% equity interest in YHTH to YPIG by Yunnan SASAC as stated in the announcement of the Company dated 20 August 2020, upon which, YHTH was held as to 50.59%, 40.00%, 5.62% and 3.79% by YPIG, Yunnan SASAC, Yunnan Provincial Department of Finance and Yunnan Construction, respectively
"RMB"	Renminbi, the lawful currency of the PRC
"Second Capital Increase"	the subscription of equity interests in the Target Company by YAM under the terms and conditions of the Second Capital Injection Agreement and the Supplemental Agreement;
"Second Capital Injection Agreement"	the capital injection agreement dated 31 December 2020 entered into among (i) the Company; (ii) YAM; and (iii) the Target Company in respect of the Second Capital Increase
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	the Domestic Shares and/or H Shares
"Shareholder(s)"	the holder(s) of the Share(s)
"Shareholding Adjustments"	subsequent to the Reorganisation, as stated in the announcement of the Company dated 7 January 2021, the registered share capital of YHTH increased from RMB4,142,214,400 to RMB6,142,214,400, upon completion of which, YHTH is held as to approximately 44.92%, 46.73%, 4.99% and 3.36% by YPIG, Yunnan SASAC, Yunnan Provincial Department of Finance and Yunnan Construction, respectively
"Subscription Consideration"	the consideration of RMB500,000,000 payable by YAM to the Target Company for the Subscription Shares pursuant to the terms and conditions of the Second Capital Injection Agreement and the Supplemental Agreement;
"Subscription Shares"	23.958% equity interest in the Target Company legally and beneficially owned by the Company to be subscribed by YAM pursuant to the terms and conditions of the Second Capital Injection Agreement and the Supplemental Agreement
"subsidiary(ies)"	has the meaning ascribed thereto in the Listing Rules
"substantial shareholder(s)"	has the meaning ascribed thereto in the Listing Rules
"Supervisor(s)"	supervisor(s) of the Company

"Supplemental Agreement"	the supplemental agreement dated 31 December 2020 entered into among (i) the Company; (ii) YAM; and (iii) the Target Company in accordance with the terms of the Second Capital Injection Agreement, for the purpose of further specifying certain terms under the Second Capital Injection Agreement
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Yunnan Yunshui Construction & Engineering Co., Ltd.* (雲南雲水建設工程有限公司), a limited liability company incorporated in the PRC and a non-wholly owned subsidiary of Company
"Valuation Reference Date"	30 June 2020, being the reference date of the Valuation Report on the appraisal of the equity attributable to owners of the Target Company dated 23 December 2020 issued by the Independent Valuer
"Valuation Report"	the valuation report dated 23 December 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
"YAM"	Yunnan Asset Management Co., Ltd.* (雲南省資產管理有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of YPIG
"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 which is held as to approximately 44.92% by YPIG, 46.73% by Yunnan SASAC, 4.99% by Yunnan Provincial Department of Finance and 3.36% by Yunnan Construction upon completion of the Reorganisation and the Shareholding Adjustments
"YMT"	Yunnan OriginWater Membrane Technology Co., Ltd.* (雲南城投碧水源膜科技有限責任公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Target Company
"YPIG"	Yunnan Investment Holding Group Co., Ltd.*(雲南省投資控股集團有限公司), a limited liability company incorporated in the PRC which is owned as to 90% by Yunnan SASAC and 10% by the Yunnan Provincial Department of Finance
"Yunnan Construction"	Yunnan Construction and Investment Holding Group Co., Ltd.* (雲南省建設投資控股集團有限公司), a limited liability company established in the PRC
"Yunnan Province Water"	Yunnan Province Water Industry Investment Co., Ltd.* (雲南省水務產業投資有限公司), a limited liability company established in the PRC, which is one of the controlling shareholders of the Company
"Yunnan SASAC"	the State-owned Assets Supervision and Administration Commission of the State Council of the PRC of Yunnan Province
"%"	per cent

* *For identification purposes only*

	2021
Deadline for registration of transfer of Shares in order to be eligible for attending and voting at the EGM	4:30 p.m. on Monday, 5 July
Suspension of registration of transfer of Shares	From Tuesday, 6 July to Tuesday, 13 July (both dates inclusive)
Deadline for returning the proxy form for the EGM	10:00 a.m. on Monday, 12 July
EGM	10:00 a.m. on Tuesday, 13 July
Resumption of registration of transfer of Shares	Wednesday, 14 July

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)*
Ms. Ling Hui

Non-executive Directors:
Mr. Dai Richeng
Ms. Li Bo *(Chairperson)*
Mr. Chen Yong
Mr. Liu Hui

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

25 June 2021

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION DEEMED DISPOSAL OF 23.958% EQUITY INTEREST IN THE TARGET COMPANY

INTRODUCTION

References are made to the announcements of the Company dated 17 June 2020 and 31 December 2020 in relation to, among other things, the First Capital Increase and the Second Capital Increase, respectively.

Following completion of the First Capital Increase and as at the Latest Practicable Date, the Target Company was held as to approximately 80.625% by the Company and approximately 19.375% by YAM, a wholly-owned subsidiary of YPIG. On 31 December 2020 (after trading hours), the Company entered into the Second Capital Injection Agreement and the Supplemental Agreement with YAM and the Target Company, pursuant to which, (i) YAM has agreed to further subscribe for the Subscription

Shares (representing approximately 23.958% of the registered capital of the Target Company upon completion of the Second Capital Increase) at the consideration of RMB500,000,000 (comprising newly increased registered capital of approximately RMB218,830,700 and capital reserve of approximately RMB281,169,300), and (ii) as part of the transaction, the Company has agreed to reduce its paid-in capital contribution in the Target Company by RMB42,404,100 from RMB560,000,000 to RMB517,595,900 and convert the sum of RMB42,404,100 from registered capital to capital reserve of the Target Company. Upon completion of the Second Capital Increase, the registered capital of the Target Company will be increased from RMB694,573,800 as at the Latest Practicable Date to RMB913,404,500 and the Target Company will be held as to approximately 56.667% by the Company and approximately 43.333% by YAM, therefore the Target Company will remain as a subsidiary of the Company and its accounts will continue to be consolidated with those of the Group.

Subsequent to the publication of the Announcement, upon completion of the Reorganisation and the Shareholding Adjustments, YPIG has become the controlling shareholder of YHTH, one of the controlling shareholders of the Company, and hence YAM, a wholly-owned subsidiary of YPIG, is an associate of YHTH and therefore a connected person of the Company under Rule 14A.07 of the Listing Rules. As such, the Second Capital Injection Agreement, the Supplemental Agreement and the transactions contemplated thereunder constitute connected transactions under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios calculated with reference to Rule 14.07 of the Listing Rules in respect of the Second Capital Increase pursuant to the Second Capital Injection Agreement and the Supplemental Agreement exceeds 5%, the Second Capital Injection Agreement, the Supplemental Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, on 17 June 2020, the Company entered into the First Capital Injection Agreement with YAM and the Target Company. Since the transactions under the First Capital Injection Agreement were completed within 12 months prior to the date of the Second Capital Injection Agreement and the Supplemental Agreement, the transactions under the First Capital Injection Agreement shall be aggregated to calculate the applicable percentage ratios according to Rule 14.22 of the Listing Rules. Upon completion of the Second Capital Increase, the Group's equity interest in the Target Company will be diluted from approximately 80.625% to approximately 56.667%. As such, the Second Capital Increase pursuant to the Second Capital Injection Agreement and the Supplemental Agreement also constitute a deemed disposal by the Company of approximately 23.958% equity interest in the Target Company under Rule 14.29 of the Listing Rules. As one or more of the applicable percentage ratios (as defined in the Listing Rules) of the transactions under the First Capital Injection Agreement, the Second Capital Injection Agreement and the Supplemental Agreement on an aggregated basis exceed 75%, the Second Capital Increase under the Second Capital Injection Agreement and the Supplemental Agreement constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules, and therefore is subject to the notification, announcement, circular and Shareholders' approval requirements under the Listing Rules.

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

THE SECOND CAPITAL INJECTION AGREEMENT AND THE SUPPLEMENTAL AGREEMENT

Date

31 December 2020 (after trading hours)

Parties

(1) the Company;

(2) YAM; and

(3) the Target Company.

The Second Capital Increase

Pursuant to and subject to the terms and conditions set out in the Second Capital Injection Agreement and the Supplemental Agreement, (i) YAM has agreed to further subscribe for the Subscription Shares (representing approximately 23.958% of the registered capital of the Target Company upon completion of the Second Capital Increase) at the consideration of RMB500,000,000 (comprising newly increased registered capital of approximately RMB218,830,700 and capital reserve of approximately RMB281,169,300), and (ii) as part of the transaction, the Company has agreed to reduce its paid-in capital contribution in the Target Company by RMB42,404,100 from RMB560,000,000 to RMB517,595,900 and convert the sum of RMB42,404,100 from registered capital to capital reserve of the Target Company.

Conditions precedent

Upon taking effect of the Second Capital Injection Agreement, the payment of the Subscription Consideration of the Second Capital Increase made by YAM to the Target Company is conditional upon all the following conditions being satisfied or all or part of them being waived by YAM:

(1) YAM has completed the due diligence of the Target Company to the satisfaction of YAM.

(2) All the relevant review, audit, registration, filing or approval as required by the relevant laws, regulations and regulatory documents, the respective articles of association of all parties to the Second Capital Injection Agreement, for the satisfaction of all relevant requirements and the competent authorities or departments for the Second Capital Increase have been obtained, and the Target Company and the Company have obtained the approval from the competent authorities or departments for the Second Capital Increase.

(3) An appraisal agency possessing all valid qualifications as approved by YAM has been selected to complete the asset appraisal of the Target Company, and such appraisal results in respect of the Second Capital Increase have been filed with the competent institutions responsible for the supervision of state-owned assets (if required).

(4) Upon completion of the following matters: (i) the Target Company has issued legal and valid written resolutions in accordance with its articles of association, including resolutions of the board of directors, resolutions of the shareholders' meeting or shareholders' decisions, stating that both the Company and YAM have unanimously consented to the Second Capital Increase of RMB500,000,000 by YAM to the Target Company and the Company has waived its subscription rights in respect of the Subscription Shares; and (ii) YAM, the Target Company and the Company have agreed to disclose the information that should be disclosed in accordance with the relevant laws, regulations and regulatory documents in a timely and accurate manner (if required).

(5) The relevant agreements in respect of the Second Capital Increase, including but not limited to the legal documents such as the Second Capital Injection Agreement, have been signed by all parties and come into effect, and no default has occurred, or the default has been resolved or waived to the satisfaction of YAM since the date of signing.

(6) The Company has reached a written consensus with YAM on the revised contents of the articles of association of the Target Company in respect of the Second Capital Increase (the contents therein must reflect and conform to those as agreed in the Second Capital Injection Agreement).

(7) As at the completion date as stipulated in the Second Capital Injection Agreement, the representations, guarantees and undertakings made by the Target Company and the Company under the Second Capital Injection Agreement remain to be true, complete and accurate.

(8) As at the completion date as stipulated in the Second Capital Injection Agreement, the financial conditions, business operations and asset conditions of the Target Company and the Company have not experienced any material adverse changes since the signing of the Second Capital Injection Agreement.

(9) YAM has internally approved its investment decisions in relation to the Second Capital Increase.

(10) The Target Company and the Company have provided YAM with written confirmations executed by their respective legal representatives or authorised representatives with their respective company seals affixed confirming the satisfaction of all conditions precedent with the relevant supporting documents (the contents therein must be approved by YAM).

(11) YAM is entitled to decide to pay all or part of the Subscription Consideration in advance according to the actual situation if the above conditions precedent are not fully satisfied, and YAM's early payment of the Subscription Consideration does not constitute a waiver of any of its rights under the Second Capital Injection Agreement, nor does it constitute an affirmation or waiver of other parties' non-performance of their respective contractual obligations, nor a flawed performance of YAM's contractual obligations under the Second Capital Injection Agreement.

YAM may waive all of the conditions precedent set out above. As at the Latest Practicable Date, conditions precedent referred to in paragraphs (1), (3), (6) and (9) above had been fulfilled and YAM intended to waive conditions precedent referred to in paragraphs (4) and (11) above.

Payment of the Subscription Consideration and completion

As agreed by all parties to the Second Capital Injection Agreement, subject to the fulfillment of all conditions precedent as confirmed by YAM, the conditions precedent have been fully or partially waived in writing by YAM, or in accordance with the terms under clause 3.2(11) of the Second Capital Injection Agreement, YAM may settle the Subscription Consideration in cash in one lump sum by transferring the Subscription Consideration to the bank account opened by the Target Company in accordance with terms of the Second Capital Injection Agreement. The completion of the Second Capital Increase shall take place on the payment date of the Subscription Consideration. As at the Latest Practicable Date, the Subscription Consideration had been fully paid by YAM to the bank account of the Company, and the completion of the Second Capital Increase shall take place shortly after the conclusion of the EGM as agreed by the parties to the Second Capital Injection Agreement.

Basis of determination of the Subscription Consideration

The Subscription Consideration is determined after arm's length negotiation among the parties to the Second Capital Injection Agreement on normal commercial terms with reference to the appraised value of the net assets of the Target Company as at the Valuation Reference Date, as appraised by the Independent Valuer using the asset-based approach (the "**Target Company Valuation**") after taking into account of the following factors by the Company, including:

(i) the future development potential of the Target Company, in particular, the Target Company intends to commence certain water related projects (including wastewater treatment projects and water supply projects) and solid waste treatment related projects in 2021; and

(ii) the current situation and future development prospects of the industries in which the Target Company operates.

In connection with the Target Company Valuation, the Directors have performed the following due diligence steps in assessing the fairness and reasonableness of the Target Company Valuation:

(i) reviewed the terms and conditions of the Second Capital Injection Agreement;

(ii) reviewed the qualifications and experiences of the Independent Valuer, the Board understands that Ms. Zhang Qionghui ("**Ms. Zhang**"), the partner of Zhonghe Appraisal Co., Ltd. (Southwest Branch) and the signor of the Valuation Report, among others, is an asset valuer, a land valuer, a registered real estate appraiser, who holds a valid valuer certificate and has over 15 years of experience in asset valuations. In addition, the Board has obtained information on the Independent Valuer's track records on other business valuations, and noted that the Independent Valuer had been engaged as a valuer for a wide range of listed company transactions in Hong Kong and the PRC. Accordingly, the Board is of the view that the Independent Valuer and Ms. Zhang are qualified, experienced and competent in performing business valuations and providing a reliable opinion in respect of the Target Company Valuation. For further details of the qualifications and experiences of the Independent Valuer, please refer to Appendix IV to this circular;

(iii) prior to the formal engagement of the Independent Valuer, (1) the Board enquired with the Independent Valuer and the parties to the Second Capital Injection Agreement as to its independence from the Group and the parties to the Second Capital Injection Agreement; and (2) internal procedures were conducted to investigate the backgrounds of the persons-in-charge of the Target Company Valuation to ensure independence, and the Board was given to understand that the Independent Valuer is an Independent Third Party. On the other hand, having performed internal client on-boarding procedures, including conflict check, as part of the internal control procedures of the Independent Valuer prior its formal engagement, the Independent Valuer also confirmed to the Company that it was not aware of any relationship or interest between itself and the Group or any other parties that would reasonably be considered to affect its independence to act as an independent valuer for the Target Company. As confirmed by the Independent Valuer, save for the professional fees payable to it in connection with its engagement for the Target Company Valuation, no arrangements exist whereby it will receive any fee or benefit from the Group and its associates;

(iv) consulted with the relevant PRC government authorities on the reasonableness of the Target Company Valuation given that the Target Company is a state-owned asset and the valuation of which is subject to the review by the relevant PRC government authorities for the purpose of determining the Subscription Consideration;

(v) reviewed the Valuation Report in the Board meeting held on 21 December 2020 for the purpose of discussing the Second Capital Increase with reference to the valuation report on the appraisal of the entire equity interest of the Target Company dated 6 December 2019 in relation to the First Capital Increase;

(vi) cross-checked the scope of review of the Valuation Report with the engagement letter with the Independent Valuer to ensure such scope would be useful and relevant in assisting the Directors to determine the Subscription Consideration;

(vii) discussed with the Independent Valuer on (i) the bases; (ii) scope of review; (iii) assumptions; (iv) limitations; (v) qualifications adopted; and (vi) valuation methodologies, namely income and asset-based approach on which the Target Company Valuation is based in respect of the Valuation Report, to assess, in particular, the fairness and reasonableness of the major assumptions and valuation methodologies adopted; and

(viii) obtained and reviewed the valuation working papers and results prepared by the Independent Valuer for each of the assets and liabilities of the Target Company.

Based on the foregoing, the Directors did not identify any major factor which caused them to doubt the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the Valuation Report.

Set forth below are the major assumptions on which the Target Company Valuation was based as set out in the Valuation Report, details of which are set out in Appendix IV to this circular:

(i) the technical personnel and senior management of the Target Company would remain relatively stable and there would be no significant turnover of core professional personnel in the years;

(ii) the current and future operators of the Target Company are accountable and its management would be able to steadily proceed with the development plan of the Target Company to maintain a good operating position;

(iii) the future operators of the Target Company would comply with the relevant PRC laws and regulations, and there would be no major non-compliance that might affect the development and realisation of income of the Target Company;

(iv) the accounting policies adopted in the preparation of the financial information provided by the Target Company in previous years are generally consistent (or have been adjusted to be consistent) with the accounting policies and the accounting methods used in the preparation of the revenue forecast in all material aspects;

(v) the high-tech enterprise certification of YMT, a wholly-owned subsidiary of the Target Company, is valid until 2022. It is assumed that the renewal of such high-tech enterprise certification after 2022 would be obtainable, and a preferential income tax rate of 15% would be also adopted for the purpose of appraising the equity interest of YMT (the "**YMT Valuation**"). Further details of the principal assumptions adopted in the YMT Valuation are set out below; and

(vi) as the three patents for invention owned by the Target Company and used by its wholly-owned subsidiary, YMT, are used in conjunction with the patented technologies owned by YMT for the production of hollow fiber membrane and large-sized membrane module, it is assumed that the patent rights of the Target Company would be provided to the subsidiary at nil consideration during the validity period.

In respect of the YMT Valuation where the income approach was adopted, the details of the principal assumptions, including commercial assumptions, upon which the profit forecast of YMT as involved in the income approach is based are set out below:

(i) the technical personnel and senior management of YMT would remain relatively stable and there would be no significant turnover of the core professional personnel of YMT;

(ii) the current and future operators of YMT are accountable and its management would be able to steadily proceed with its development plans and maintain YMT in a good operating position;

(iii) the future operators of YMT would comply with relevant PRC laws and regulations and there would be no major non-compliance that might affect the development and realisation of income of YMT;

(iv) the accounting policies adopted in the historical financial information provided by YMT are generally consistent with the accounting policies and accounting methods adopted in formulating revenue forecast in all material aspects;

(v) all liabilities of YMT are fully reflected and there are no contingent liabilities;

(vi) the high-tech enterprise certification of YMT would be renewed and the income tax rate would continue to be at a preferential rate of 15%; and

(vii) the Target Company has not charged YMT any royalties for the patent rights it owns, and such situation shall continue and YMT would not incur royalties in the future.

The Board understands that the determination of discount rate applicable in the income approach valuation as adopted in the YMT Valuation requires significant experience and judgment by the Independent Valuer. The Board further understands and concurs with the view of the Independent Valuer after making due and careful enquiries by considering the followings:

(i) as confirmed by the Independent Valuer, the Valuation Report was prepared in accordance with, among other things, the Asset Evaluation Standards — Basic Standards (《資產評估準則 — 基本準則》) which was issued by Ministry of Finance of the PRC;

(ii) in respect of the valuation methodologies adopted:

Target Company Valuation

(a) as advised by the Independent Valuer, the market approach was considered less meaningful given that there were insufficient appropriate transactions that were comparable with the Target Company, and the income approach was inappropriate on the other hand given that the future income of the Target Company is relatively unpredictable considering that (1) the Target Company is a project-based company, the underlying construction projects of which are not of a recurring nature; and (2) the environmental protection industry where the Target Company operates is volatile, which depends to a large extent to the prevailing government policies and market conditions. In the circumstances, the asset-based approach was considered to be more appropriate for the purpose of the Target Company Valuation as the Target Company is a capital-intensive company, the fixed assets of which include construction machinery, equipment and related facilities. Such approach assumes that aggregating the individual values of each of the existing assets of the Target Company would render the value of the Target Company, which equals to the value of its invested capital;

(b) apart from the appraised value of the long-term equity investment of the Target Company which accounted for a significant portion of the increment in the appraised value of the Target Company, the Independent Valuer adopted various valuation methodologies for different types of assets of the Target Company, including verifying or checking the financial statements of the Target Company, market comparison, cost method and a combination of the relevant said methods. As advised by the Independent Valuer, the adoption of various valuation methodologies for the respective different types of assets of the Target Company is in line with the industry practice. Taking into account (1) the valuation methodologies principally involved the verification or cross-checking of the value of these assets against the financial statements of the Target Company, and (2) the reasons and benefits of the various valuation methodologies adopted for the respective different types of these assets of the Target Company as explained by the Independent Valuer, the Board is of the view that the respective appraisals of these assets other than the YMT Valuation are reasonable and appropriate;

YMT Valuation

(a) the Board understands that the significant increment in the value of the Target Company was mainly attributable to its wholly-owned subsidiary, YMT, which has been accounted for as the long-term equity investment of the Target Company, and the income approach was on the other hand adopted in the valuation of YMT. In this regard, the Independent Valuer assessed and acknowledged the limitation in the availability of appropriate samples of comparable transactions with comparable business structure, asset size, scale of operations, profitability and other factors primarily owing to the unique membrane technology possessed by YMT together with various patents that it holds. As such, the Independent Valuer considered that the market approach is not suitable. In addition, the asset-based approach was considered to be less appropriate for the purpose of the YMT Valuation as such approach may overlook the comprehensive profitability of each asset of YMT in the overall asset appraisal given (1) the advanced technology held by YMT; (2) the branding advantage in the market; and (3) the well-developed customer base of YMT. In respect of the income approach, the Independent Valuer considered that the source of revenue for YMT can be relatively stable in the future. The expected future return is predictable and can be measured in currency. The risk borne by the asset owner to obtain the expected return is also predictable and can be measured in currency. The expected profit period can be predicted by the enterprise. Therefore, it is appropriate to use the income approach for the YMT Valuation. The Independent Valuer explained that such issue is commonly seen in using the income approach to value companies possessing unique technologies that has no existing good comparable companies, in particular, given that YMT is currently in the growth stage of its business cycle, with a majority of its products and technologies are still being developed;

(iii) in respect of the key assumptions adopted for both the Target Company Valuation and the YMT Valuation:

(a) the historical normal turnover rates of the technical personnel and senior management of the Target Company and YMT are relatively low. Taking into account the long working relationships of these personnel with the Target Company and the competitive remuneration packages offered by the Target Company and YMT for these personnel, the Board believes that these high calibre of the Target Company would remain relatively stable in the near future;

(b) both the internal policies of the Target Company and YMT clearly delineate the respective organisational structure and chain of command of the Target Company and YMT, which establishes accountability, lines of authority and decision-making power of the Target Company and YMT. The Board consider that the Target Company and YMT will be able to adhere to such policies to maintain its existing organisational structure to ensure a good operating position of the Target Company and YMT in the near future;

(c) to the best knowledge of the Directors after making reasonable enquiries, as at the Latest Practicable Date, both the Target Company and YMT had complied with all respective relevant applicable laws and regulations that have a significant impact on the Target Company and YMT. The Board expects the employees of both the Target Company and YMT continue to comply with the respective relevant applicable laws and regulations in all material respects;

(d) the Board understands that the accounting policies adopted in the previous years in the preparation of the financial statements of both the Target Company and YMT have been generally consistent;

(e) the Board is satisfied that the financial assumptions adopted in the Valuation Report in relation to the Target Company and YMT are reasonably justified, having regarded (i) the historical financial performance of the Target Company and YMT, including their respective financial statements for the three years ended 31 December 2020; (ii) the current financial status of the Target Company and YMT; (iii) the future development potential of the Target Company and YMT; (iv) the current development and the prospects of the water and solid waste treatment industries that the Target Company and YMT operate in; and (v) the macroeconomic environment in the PRC;

(f) based on the advice from the PRC legal advisers to the Company, the Board does not foresee any legal impediment to renew the high-tech enterprise certification of YMT after 2022 if YMT continues to comply with the relevant requirements for obtaining or renewing the aforesaid certification;

(g) the Board understands that the Target Company would continue to provide the three patents for invention owned by it to YMT at nil consideration during the validity period; and

(h) in respect of the discount rate adopted in the profit forecast as involved in the YMT Valuation:

    (1) the Independent Valuer explicated that the fairness and reasonableness of the discount rate should be assessed with reference to the financial projections, in the context of YMT, analyses of sales quantity, product unit price, costs, business development tends and growth trends were conducted to estimate the future business operation and revenue of YMT, thus the size of specific risk premium is also related to the risk embedded in the financial projections. For instance, a more aggressive financial forecast would warrant a higher specific risk premium; while a more conservative forecast would require a lower specific risk premium; and

    (2) The discount rate of 11.9% adopted in the income approach implies that the Second Capital Increase at exactly the valuation level would generate a 11.9% internal rate of return if YMT is able to achieve the financial projections in the future. The Board considers this to be a lucrative return in the current low interest rate environment, balancing the risk factors and opportunities as disclosed.

Based on the foregoing and the due diligence steps performed by the Board in assessing the fairness and reasonableness of the valuation of the Target Company as a whole, the Board considers the Target Company Valuation and the YMT Valuation as at the Valuation Reference Date are fair and reasonable, despite the limitation on the comparability of the comparable companies which is understood to be the nature of the industry which the Target Company is engaged in.

Similar to the First Capital Increase, the allocation of registered capital of the Target Company to be subscribed by YAM was determined based on the appraised value of the net assets of the Target Company as at the Valuation Reference Date per share of the Target Company (the "**NAV per Share**"). Accordingly, on the basis that the NAV per Share is RMB2.2849, with the Subscription Consideration of RMB500,000,000, the registered capital of the Target Company to be subscribed by YAM shall amount to approximately RMB218,830,000. As confirmed by the Company, save for a special dividend of approximately RMB312.3 million paid by the Target Company for the year ended 31 December 2020, there was no material change in the Target Company subsequent to the Valuation Reference Date up to the Latest Practicable Date.

Corporate governance of the Target Company subsequent to completion

From and inclusive of the completion date of the Second Capital Increase, YAM is entitled to exercise its shareholders' rights to participate in the Target Company's governance and management without compromising its interests. The resolutions made by the Target Company's shareholders and the board of directors shall not prejudice the legitimate rights and interests of YAM. The Target Company shall implement the contents in relation to corporate governance of the Target Company as stipulated in clause 7 of the Second Capital Injection Agreement by modifying the Target Company's articles of association, and at the same time the Company shall ensure the implementation of the same.

1. Shareholders' meeting of the Target Company

The shareholders' meeting of the Target Company is composed of the Company and YAM. The legitimate rights of shareholders shall be protected.

2. Board of directors of the Target Company

From and inclusive of the completion date of the Second Capital Increase, the board of directors of the Target Company shall consist of 3 members, of which YAM shall have the right to nominate 1 director and the Company shall have the right to nominate 2 directors. Each party has the right to remove or change the directors nominated by itself, and the notice of the removal or change of directors shall be effective after being served on the Target Company. Each party and their nominated directors or proxies should ensure that they would vote in favour of the aforesaid matters at the general meeting and the meeting of the board of directors of the Target Company to facilitate the election of the directors nominated by the party entitled to nominate.

The term of office of each director of the board of directors of the Target Company is three years commencing on the passing date of resolutions at the shareholders' meeting of the Target Company. The members of the board of directors whose terms expire may be re-elected. In the event that there are vacancies on the board of directors arising from the change, resignation, incapacity or death of directors, the original nominating party of such directors may nominate the successors, and each party shall prompt the shareholders' meeting of the Target Company to elect such successors as members of the board of directors of the Target Company to complete the term of office of such directors.

Profit distribution

Since the financial year in which the completion of the Second Capital Increase takes place, the distributable profits of the Target Company shall be distributed to the shareholders of the Target Company according to their contribution ratios of the registered capital of the Target Company. Such profit distribution shall be paid in cash.

Protection of YAM's shareholder's rights

1. Introduction of new investors

From and inclusive of the completion date of the Second Capital Increase, any increase in the registered capital of the Target Company shall be subject to a unanimous consent in writing from both YAM and the Company, and the introduction of any new investor to the Target Company shall be subject to a unanimous resolution passed at the general meeting of the Target Company.

2. Transfer restrictions

Upon taking effect of the Second Capital Injection Agreement and during the period when YAM is a shareholder of the Target Company, the Company shall not, whether directly or indirectly, sell, offer, assign, pledge, create any encumbrance or otherwise dispose of any equity interest in the Target Company held by the Company without any prior consent from YAM irrespective of the exercise of its rights of first refusal (the "**Transfer Restrictions**").

3. Right of co-sale

Subject to the Transfer Restrictions, if the Company intends to transfer any of its equity interest in the Target Company to an independent third party with the prior written consent from YAM, the Company shall issue a notice of co-sale of equity interest 30 days prior to the intended transfer to allow YAM to participate in the co-sale of its equity interest in the Target Company subject to the proportion as stipulated in the Second Capital Injection Agreement. If YAM opts to exercise its right of co-sale, YAM shall notify the Company within 20 business days after the Company has arrived written agreement with the proposed transferee on the intended transfer of the equity interest held by the Company in the Target Company in writing.

Cancellation of the Second Capital Injection Agreement

In the event that the Second Capital Injection Agreement is cancelled, the parties to the Second Capital Injection Agreement shall return the Subscription Consideration received from the other party in accordance with the principles of fairness, reasonableness and integrity. Except as otherwise stipulated in the Second Capital Injection Agreement, the Target Company and the Company shall be jointly and severally liable for the refund to YAM of all the Subscription Consideration paid by it. For any outstanding payment overdue, 0.05% of the Subscription Consideration as liquidated damages shall be paid by the aforesaid parties to YAM on a daily basis commencing on the overdue date until all the aforesaid amount including the liquidated damages charged to the Company/the Target Company is settled in full by the Company/the Target Company.

INFORMATION ON THE PARTIES

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.

YAM

YAM is a limited liability company established in the PRC and a wholly-owned subsidiary of YPIG, and YPIG is held as to 90% and 10% by Yunnan SASAC and the Yunnan Provincial Department of Finance, respectively. The main businesses of YAM include asset acquisition and disposal, asset operation and management as well as economic consulting and services. Upon completion of the Reorganisation and the Shareholding Adjustments, YPIG has become the controlling shareholder of YHTH, one of the controlling shareholders of the Company, and hence YAM, a wholly-owned subsidiary of YPIG, is an associate of YHTH and therefore a connected person of the Company.

The Target Company

The Target Company is a limited liability company established in the PRC. As at the date of this circular and prior to the completion of the Second Capital Increase, the Target Company is a non-wholly owned subsidiary of the Company which is owned as to approximately 80.625% by the Company and approximately 19.375% by YAM. The Target Company's principal business covers municipal public works, environmental protection engineering, engineering technology consulting, membrane products, membrane components and related equipment manufacturing.

Shareholding structure of the Target Company

The changes in the shareholding structure of the Target Company before and after the completion of the Second Capital Increase are set out in the following table:

Name of shareholder	**Before the Second Capital Increase**		**After the Second Capital Increase**	
	Contribution amount *(RMB in ten thousands)*	**Approximate shareholding** *(%)*	**Contribution amount** *(RMB in ten thousands)*	**Approximate shareholding** *(%)*
The Company	56,000.00	80.625	51,759.59	56.667
YAM	13,457.38	19.375	39,580.86	43.333
Total	69,457.38	100.000	91,340.45	100.000

Financial information of the Target Company

The following is the key unaudited financial information of the Target Company for the two financial years ended 31 December 2019 and 2020:

	For the year ended 31 December 2019	For the year ended 31 December 2020
	RMB'000	*RMB'000*
Net profit before tax and non-recurring items	241,076	173,422
Net profit after tax and non-recurring items	193,261	139,952

According to the unaudited consolidated financial information of the Target Company, as at 31 December 2019, the book value of the net assets and total assets of the Target Company amounted to approximately RMB876.5 million and RMB4,076.8 million, respectively. The entire equity interest of the Target Company as at 30 June 2020 as appraised by the independent valuer in the PRC amounted to RMB1,587,012,000, and the approximately 23.958% equity interest in the Target Company held by the Company as at the date of this circular and prior to the Second Capital Increase amounted to approximately RMB380,216,000 accordingly. For reference only, according to the unaudited consolidated financial information of the Target Company, as at 31 December 2020, the book value of the net assets and total assets of the Target Company amounted to approximately RMB1,504.2 million and RMB5,153.2 million, respectively. Please refer to Appendix II for further details on the financial information of the Target Company of the three years ended 31 December 2020.

COMPLIANCE WITH RULE 14.62 OF THE LISTING RULES IN RESPECT OF THE VALUATION OF THE TARGET COMPANY

Based on the results of the Target Company Valuation, the appraised value of the entire equity interest of the Target Company of RMB1,587,012,000, representing an increase of approximately RMB567.6 million or 55.7% as compared to the unaudited net asset value of the Target Company as at the Valuation Reference Date of approximately RMB1,019.4 million. The significant increase in the value of the Target Company was mainly attributable to the value increment of approximately RMB552.4 million arising from the appraisal (the "**YMT Valuation**") as at the Valuation Reference Date of the Target Company's long-term equity investment in YMT, a wholly-owned subsidiary of the Target Company, representing a majority of the value increment in the valuation of the Target Company. As the YMT Valuation was prepared based on the income approach by the Independent Valuer, which involves the cash flow forecast of YMT, such valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. For further details of the principal assumptions upon which the profit forecast of YMT is based, please refer to the paragraphs headed "The Second Capital Injection Agreement and the Supplemental Agreement — Basis of determination of the Subscription Consideration" above in this circular.

A summary of the Valuation Report is set out in Appendix IV to this circular. In accordance with Rule 14.62 of the Listing Rules, the Company has engaged Moore Stephens CPA Limited, the reporting accountants of the Company, to report to the Directors on their review of the calculations of the discounted future cash flows adopted in the YMT Valuation. Opus Capital, the Independent Financial Adviser, has considered the profit forecast of YMT included in the Valuation Report and the abovementioned report from Moore Stephens CPA Limited, and is satisfied that such profit forecast have been made by the Directors after due and careful enquiry.

A report from Moore Stephens CPA Limited and the letter from Opus Capital regarding the profit forecast of YMT in the Valuation Report are set out in Appendix V and Appendix VI to this circular, respectively, in compliance with Rule 14.62 of the Listing Rules. The Company has submitted the report from Moore Stephens CPA and the letter from Opus Capital to the Stock Exchange in compliance with Rule 14.62 of the Listing Rules.

REASONS FOR AND BENEFITS OF THE SECOND CAPITAL INCREASE

The Directors consider that, the Group may reduce the asset-liability ratio of both the Target Company and the Group itself and supplement the working capital of the Group through the Second Capital Increase. Although the entering into of the Second Capital Injection Agreement and the Supplemental Agreement is not in the ordinary and usual course of business of the Group, the Directors (including the independent non-executive Directors after having considered the advice of the Independent Financial Adviser) are of the view that the terms and conditions of the Second Capital Injection Agreement and the Supplemental Agreement are established on normal commercial terms, fair and reasonable and in the interest of the Company and its Shareholders as a whole.

The Directors confirm that save for the Second Capital Increase, the Target Company has no further funding needs or intention to conduct any fund raising activities now or in the foreseeable future and shall remain as a non-wholly owned subsidiary of the Company in the future.

FINANCIAL EFFECT OF THE SECOND CAPITAL INCREASE

The Second Capital Increase pursuant to the Second Capital Injection Agreement and the Supplemental Agreement constitutes a deemed disposal of a non-wholly owned subsidiary by the Company of approximately 23.958% equity interest in the Target Company.

Upon completion of the Second Capital Increase, the Target Company will remain as a non wholly-owned subsidiary of the Company. As such, the Target Company and its operating results, assets and liabilities will continue to be consolidated in the financial statements of the Group. The total assets of the Group will increase by RMB500.0 million and the total earnings and total liabilities of the Group will remain unchanged upon completion of the Second Capital Increase. As the respective Second Capital Increase in the Target Company by YAM and the Company as the existing shareholders of the Target Company are equity transactions, no gain/loss will be reported in the Company's consolidated statement of profit or loss except that the non-controlling interests of the Target Company will be enlarged upon completion of the Second Capital Increase. Further details of the unaudited pro forma financial information of the Group are set out in Appendix III to this circular.

The proceeds from Second Capital Increase will be used as working capital of the Target Company, 19.22% of which will be used for its daily operation, such as internal management and financial expenditures, 66.34% of which will be used for plant constructions, equipment and facilities acquisitions and installations and purchases of construction materials for the purposes of the commencement of water related projects, including sewage treatment projects and water supply projects, and 14.44% of which will be used for the purposes of plant constructions and equipment acquisitions for solid waste treatment related projects, respectively. The gearing and working capital of the Group would be enhanced as a result of the Second Capital Increase.

LISTING RULES IMPLICATIONS

Subsequent to the publication of the Announcement, upon completion of the Reorganisation and the Shareholding Adjustments, YPIG has become the controlling shareholder of YHTH, one of the controlling shareholders of the Company, and hence YAM, a wholly-owned subsidiary of YPIG, is an associate of YHTH and therefore a connected person of the Company under Rule 14A.07 of the Listing Rules. As such, the Second Capital Injection Agreement, the Supplemental Agreement and the transactions contemplated thereunder constitute connected transactions under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios calculated with reference to Rule 14.07 of the Listing Rules in respect of the Second Capital Increase pursuant to the Second Capital Injection Agreement and the Supplemental Agreement exceeds 5%, the Second Capital Injection Agreement, the Supplemental Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, on 17 June 2020, the Company entered into the First Capital Injection Agreement with YAM and the Target Company. Since the transactions under the First Capital Injection Agreement were completed within 12 months prior to the date of the Second Capital Injection Agreement and the Supplemental Agreement, the transactions under the First Capital Injection Agreement shall be aggregated to calculate the applicable percentage ratios according to Rule 14.22 of the Listing Rules. Upon completion of the Second Capital Increase, the Group's equity interest in the Target Company will be diluted from approximately 80.625% to approximately 56.667%. As such, the Second Capital Increase pursuant to the Second Capital Injection Agreement and the Supplemental Agreement also constitute a deemed disposal by the Company of approximately 23.958% equity interest in the Target Company under Rule 14.29 of the Listing Rules. As the applicable percentage ratios (as defined in the Listing Rules) of the transactions under the First Capital Injection Agreement, the Second Capital Injection Agreement and the Supplemental Agreement on an aggregated basis exceed 75%, the Second Capital Increase under the Second Capital Injection Agreement and the Supplemental Agreement constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules, and therefore is subject to the notification, announcement, circular and Shareholders' approval requirements under the Listing Rules.

EGM AND CONNECTED PERSONS WHO ARE REQUIRED TO ABSTAIN FROM VOTING ON THE RESOLUTIONS

The Company will convene the EGM to consider and approve, among other things, the Second Capital Increase. The notice convening the EGM has been despatched to the Shareholders on 25 June 2021.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the transaction and its associates will abstain from voting at the general meeting to be held by the Company to, including but not limited to, consider and approve the Second Capital Increase. Therefore, YHTH and its associates shall abstain from voting at the general meeting to consider and approve the Second Capital Increase.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, apart from YHTH and its associates, no other Shareholders have material interest in the Second Capital Increase and shall abstain from voting at the resolution(s) in relation to the approval of the Second Capital Injection Agreement and the Supplemental Agreement and the transactions contemplated thereunder at the EGM.

RECOMMENDATION

Your attention is drawn to the letter of recommendation from the Independent Board Committee as set out on page 23 of this circular which contains its recommendation to the Independent Shareholders on the terms of the Second Capital Increase. Your attention is also drawn to the letter of advice received from Opus Capital as set out on pages 25 to 47 of this circular which contains, among other things, its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Second Capital Injection Agreement and the Supplemental Agreement, the casting of votes for or against the resolution(s) approving the Second Capital Increase as well as the principal factors and reasons considered by it in concluding its advice.

Although the entering into of the Second Capital Injection Agreement and the Supplemental Agreement is not in the ordinary and usual course of business of the Group, the Directors (including the independent non-executive Directors after having considered the advice of the Independent Financial Adviser) are of the view that the terms of the Second Capital Increase Agreement and the Supplemental Agreement are fair and reasonable, have been entered into after arm's length negotiation between all parties thereto and determined on normal commercial terms which are fair and reasonable and are in the interests of the Company and its Shareholders as a whole and they recommend the Shareholders to vote in favour of the relevant resolution at the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By Order of the Board
Yunnan Water Investment Co., Limited*
Li Bo
Chairperson

* *For identification purposes only*

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)

Office address
Yunnan Water Investment Co., Limited
2089 Haiyuan Bei Road
Gaoxin District
Kunming, Yunnan
PRC

25 June 2021

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION DEEMED DISPOSAL OF 23.958% EQUITY INTEREST IN THE TARGET COMPANY

We refer to the circular issued by the Company to the Shareholders dated 25 June 2021 (the "**Circular**") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

Under the Listing Rules, the transactions contemplated under the Second Capital Injection and the Supplemental Agreement constitute connected transactions of the Company, and the Second Capital Increase subject to the approval of the Independent Shareholders at the EGM.

We have been appointed as the Independent Board Committee to consider the terms of the transactions under the Second Capital Injection Agreement and the Supplemental Agreement and to advise the Independent Shareholders in connection with the Second Capital Injection Agreement and the Supplemental Agreement as to whether, in our opinion, their terms are fair and reasonable and, on normal commercial term, and are in the interests of the Company and the Shareholders as a whole. Opus Capital has been appointed as the Independent Financial Adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board and the letter from Opus Capital as set out in this circular. Having considered the principal factors and reasons considered by, and the advice of Opus Capital as set out in its letter of advice, although the entering into of the Second Capital Injection Agreement and the Supplemental Agreement is not in the ordinary and usual course of business of the Group, we consider that the Second Capital Injection Agreement, the Supplemental Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve, among others, the Second Capital Injection Agreement and the Supplemental Agreement.

Yours faithfully,
For and on behalf of the Independent Board Committee
Liu Shuen Kong, Zhong Wei and Zhou Beihai
Independent non-executive Directors
Yunnan Water Investment Co., Limited*

* *For identification purposes only*

The following is the full text of a letter from Opus Capital to the Independent Board Committee and the Independent Shareholders in respect of the Second Capital Increase, which has been prepared for the purpose of inclusion in this circular.

Opus Capital Limited
創富融資有限公司

18th Floor, Fung House
19–20 Connaught Road Central
Central, Hong Kong

25 June 2021

To: the Independent Board Committee and the Independent Shareholders of Yunnan Water Investment Co., Limited

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION DEEMED DISPOSAL OF 23.958% EQUITY INTEREST IN THE TARGET COMPANY

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Second Capital Increase, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 25 June 2021 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Following completion of the First Capital Increase and as at the Latest Practicable Date, the Target Company was held as to approximately 80.625% by the Company and approximately 19.375% by YAM, a wholly-owned subsidiary of YPIG. On 31 December 2020 (after trading hours), the Company entered into the Second Capital Injection Agreement and the Supplemental Agreement with YAM and the Target Company, pursuant to which, (i) YAM has agreed to further subscribe for the Subscription Shares (representing approximately 23.958% of the registered capital of the Target Company upon completion of the Second Capital Increase) at the consideration of RMB500,000,000 (comprising newly increased registered capital of approximately RMB218,830,700 and capital reserve of approximately RMB281,169,300), and (ii) as part of the transaction, the Company has agreed to reduce its paid-in capital contribution in the Target Company by RMB42,404,100 from RMB560,000,000 to RMB517,595,900 and convert the sum of RMB42,404,100 from registered capital to capital reserve of the Target Company. Upon completion of the Second Capital Increase, the registered capital of the Target Company will be increased from RMB694,573,800 as at the Latest Practicable Date to RMB913,404,500 and the Target Company will be held as to approximately 56.667% by the Company and approximately 43.333% by YAM, therefore the Target Company will remain as a subsidiary of the Company and its accounts will continue to be consolidated with those of the Group.

Subsequent to the publication of the Announcement, upon completion of the Reorganisation and the Shareholding Adjustments, YPIG has become the controlling shareholder of YHTH, one of the controlling shareholders of the Company, and hence YAM, a wholly-owned subsidiary of YPIG, is an associate of YHTH and therefore a connected person of the Company under Rule 14A.07 of the Listing Rules. As such, the Second Capital Injection Agreement, the Supplemental Agreement and the transactions contemplated thereunder constitute connected transactions under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios calculated with reference to Rule 14.07 of the Listing Rules in respect of the Second Capital Increase pursuant to the Second Capital Injection Agreement and the Supplemental Agreement exceeds 5%, the Second Capital Injection Agreement, the Supplemental Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, on 17 June 2020, the Company entered into the First Capital Injection Agreement with YAM and the Target Company. Since the transactions under the First Capital Injection Agreement were completed within 12 months prior to the date of the Second Capital Injection Agreement and the Supplemental Agreement, the transactions under the First Capital Injection Agreement shall be aggregated to calculate the applicable percentage ratios according to Rule 14.22 of the Listing Rules. Upon completion of the Second Capital Increase, the Group's equity interest in the Target Company will be diluted from approximately 80.625% to approximately 56.667%. As such, the Second Capital Increase pursuant to the Second Capital Injection Agreement and the Supplemental Agreement also constitute a deemed disposal by the Company of approximately 23.958% equity interest in the Target Company under Rule 14.29 of the Listing Rules. As one or more of the applicable percentage ratios (as defined in the Listing Rules) of the transactions under the First Capital Injection Agreement, the Second Capital Injection Agreement and the Supplemental Agreement on an aggregated basis exceed 75%, the Second Capital Increase under the Second Capital Injection Agreement and the Supplemental Agreement constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules, and therefore is subject to the notification, announcement, circular and Shareholders' approval requirements under the Listing Rules.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the transaction and its associates will abstain from voting at the general meeting to be held by the Company to, including but not limited to, consider and approve the Second Capital Increase. Therefore, YHTH and its associates shall abstain from voting at the general meeting to consider and approve the Second Capital Increase.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, apart from YHTH and its associates, no other Shareholders have material interest in the Second Capital Increase and shall abstain from voting at the resolution in relation to the approval of the Second Capital Increase at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprises Mr. Liu Shuen Kong, Mr. Zhong Wei and Mr. Zhou Beihai, being all the independent non-executive Directors, has been formed to consider whether the terms of the Second Capital Injection Agreement, the Supplemental Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and whether they are entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and to make recommendations to the Independent Shareholders in respect of the voting on the relevant resolution to be proposed at the EGM to approve the Second Capital Increase. Opus Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

OUR INDEPENDENCE

We have been appointed by the Company to act as the independent financial adviser to advise the independent board committee and the independent shareholders of the Company on certain connected transactions involving receiving parent guarantee and providing counter guarantee, details of which are set out in the circular of the Company dated 23 April 2021 (the "**Separate Appointment**").

As at the Latest Practicable Date, save for the Separate Appointment, we did not have any relationship with, or interest in, the Group, YAM, YHTH, YPIG or other parties that could reasonably be regarded as relevant to our independence. During the two years immediately prior to this letter, save for the Separate Appointment, we have not acted as an independent financial adviser to the Company. Apart from the normal professional fees paid or payable to us in connection with the Past Appointment and this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Group, YAM, YHTH, YPIG or other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst other things:

(i) the Company's annual report (the "**2019 Annual Report**") for the year ended 31 December ("**FY**") 2019 published on 28 April 2020;

(ii) the Company's annual report (the "**2020 Annual Report**") for FY2020 published on 28 April 2021;

(iii) the Announcement;

(iv) the Second Capital Injection Agreement;

(v) the Supplemental Agreement;

(vi) the unaudited consolidated financial information of the Target Company for FY2018, FY2019 and FY2020 as set out in Appendix II to the Circular (the "**Target Co Financials**");

(vii) the unaudited pro forma financial information of the Group as set out in Appendix III to the Circular;

(viii) the Valuation Report issued by the Independent Valuer on the valuation of the entire equity interest of the Target Company (the "**Valuation**"), a summary of the Valuation Report is set out in Appendix IV to the Circular;

(ix) the working papers and supporting documents of the Valuation as provided by the Independent Valuer; and

(x) other information as set out in the Circular.

We have relied on the truth, accuracy and completeness of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations made to us by the Company, the Directors and the management of the Group (collectively, the "**Management**"). We have assumed that all information and representations contained or referred to in the Circular and provided to us by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Management in the Circular were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information has been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Management, which have been provided to us.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. However, we have not carried out any independent verification of the information provided by the Management, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

The Directors jointly and severally accept full responsibility for the accuracy of the information disclosed and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts not contained in this letter, the omission of which would make any statement herein misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection for their consideration of the Second Capital Increase, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Second Capital Increase, we have taken into consideration, inter alia, the following principal factors and reasons:

1 Background information of the Group

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.

The following tables summarise the audited consolidated financial information of the Company for FY2019 and FY2020 as extracted from the 2019 Annual Report and the 2020 Annual Report:

Table 1: Summarised financial performance of the Company

	FY2020 *(RMB'000)* *(Audited)*	**FY2019** *(RMB'000)* *(Audited)*
Revenue	8,396,630	6,538,024
Gross profit	2,096,132	1,832,313
Profit for the year	341,311	553,808

Sources: the 2019 Annual Report and the 2020 Annual Report

For FY2020, the revenue of the Group amounted to approximately RMB8,396.6 million, representing an increase of approximately RMB1,858.6 million or 28.4% as compared to that of FY2019. As disclosed in the 2020 Annual Report, such increase was mainly attributable to, among others, the increase in construction revenue of the existing and new wastewater treatment projects in the course of construction during FY2020. The revenue generated from wastewater treatment business segment surged by approximately RMB2,308.1 million or 77.5% as compared to that of FY2019. However, the profit for the year decreased significantly from approximately RMB553.8 million for FY2019 to approximately RMB341.3 million for FY2020, representing a decline of approximately 38.4%. Such decrease was mainly attributable to, among others, (i) a decrease in the gross profit margin to approximately 25.0% for FY2020 from approximately 28.0% for FY2019; (ii) the significant increase in the net finance costs of approximately RMB439.1 million or 53.9% as compared to that of FY2019 as a result of an increase in borrowings and increase of average interest rate on borrowings during FY2020; and (iii) there has been a decrease in other income of government grants causing other income to decrease by approximately RMB37.3 million during FY2020 as compared to FY2019.

Table 2: Summarised financial positions of the Company

	As at 31 December	
	2020 *(RMB'000)* *(Audited)*	**2019** *(RMB'000)* *(Audited)*
Non-current assets	36,676,593	29,164,775
Current assets	10,576,221	10,704,357
	47,252,814	**39,869,132**
Non-current liabilities	26,292,531	20,760,860
Current liabilities	13,352,721	10,562,287
	39,645,252	**31,323,147**
Total equity	**7,607,562**	**8,545,985**

Sources: the 2019 Annual Report and the 2020 Annual Report

As at 31 December 2020, the total assets of the Group amounted to approximately RMB47,252.8 million, representing an increase of approximately 18.5% as compared to that as at 31 December 2019. The total liabilities of the Group were approximately RMB39,645.3 million as at 31 December 2020, representing an increase of approximately 26.6% as compared to that as at 31 December 2019. We noted that the total borrowings of the Group amounted to approximately RMB27,541.8 million as at 31 December 2020, representing an increase of approximately RMB5,922.9 million or 27.4% as compared to that as at 31 December 2019. Such increase in the borrowings was mainly as a result of (i) an increase in the corporate bonds and other borrowings of approximately RMB2,170.7 million; and (ii) an increase in short-term bank borrowings of approximately RMB2,867.8 million. As at 31 December 2020, borrowings of approximately RMB12,176.0 million were secured by the Group's receivables under service concession arrangements, contract assets, right-of-use assets, property, plant and equipment, intangible assets and the Company's investments in subsidiaries.

The Group's gearing ratio (calculated by dividing net debt with total capital (i.e. net debt plus total equity)) increased from approximately 69.1% as at 31 December 2019 to approximately 77.3% as at 31 December 2020.

2 Background information of YAM

YAM is a limited liability company established in the PRC and a wholly-owned subsidiary of YPIG, and YPIG is held as to 90% and 10% by Yunnan SASAC and the Yunnan Provincial Department of Finance, respectively. The main businesses of YAM include asset acquisition and disposal, asset operation and management as well as economic consulting and services. Upon completion of the Reorganisation and the Shareholding Adjustments, YPIG has become the controlling shareholder of YHTH, one of the controlling shareholders of the Company, and hence YAM, a wholly-owned subsidiary of YPIG, is an associate of YHTH and therefore a connected person of the Company.

3 Background information of the Target Company

The Target Company is a limited liability company established in the PRC. As at the Latest Practicable Date and prior to completion of the Second Capital Increase, the Target Company is a non-wholly-owned subsidiary of the Company which is owned as to approximately 80.625% by the Company and approximately 19.375% by YAM. The Target Company's principal business covers municipal public works, environmental protection engineering, engineering technology consulting, membrane products, membrane components and related equipment manufacturing.

Shareholding structure of the Target Company before and after completion of the Second Capital Increase

The changes in the shareholding structure of the Target Company before and after completion of the Second Capital Increase are set out in the following table:

Table 3: Shareholding structure of the Target Company

Name of shareholder	Before the Second Capital Increase		After the Second Capital Increase	
	Contribution amount *(RMB'000)*	Approximate shareholding *(%)*	Contribution amount *(RMB'000)*	Approximate shareholding *(%)*
The Company	560,000.0	80.625	517,595.9	56.667
YAM	134,573.8	19.375	395,808.6	43.333
Total	**694,573.8**	**100.000**	**913,404.5**	**100.000**

Source: the Letter from the Board

Financial highlights of the Target Company

Set out below is the discussion and analysis of the summarised financial information of the Target Group based on the unaudited consolidated financial statements of the Target Company for each of FY2018, FY2019 and FY2020, prepared in accordance with the Hong Kong Financial Reporting Standards (i.e. the Target Co Financials), as set out in the Appendix II to the Circular:

(i) Financial performance

Set out below is the summary of the financial performance of the Target Company for FY2018, FY2019 and FY2020:

Table 4: Summarised financial performance of the Target Company

	FY2020 *(RMB'000)* *(Unaudited)*	**FY2019** *(RMB'000)* *(Unaudited)*	**FY2018** *(RMB'000)* *(Unaudited)*
Revenue	923,967	1,080,527	1,718,340
Gross profit	272,437	344,132	457,623
Net profit	139,952	193,261	203,544

Source: the Target Co Financials

The Target Company recorded a revenue of approximately RMB1,080.5 million for FY2019, representing a significant decline of approximately 37.1% as compared to that of FY2018. Such decrease in the revenue was mainly due to the steep decrease in the revenue generated from the construction and installation services segment of the Target Company of approximately RMB692.3 million or 76.9% for FY2019 as compared to that of FY2018. As advised by the Management, the decline in the revenue was due to the change in the business strategy of the Group, certain construction projects had been re-allocated to other subsidiaries under the Group in accordance with their principal business location. However, the Target Company only recorded a slight decrease in the net profit from approximately RMB203.5 million in FY2018 to RMB193.3 million in FY2019, representing a year-on-year decrease of approximately 5.0%. Albeit a significant decline in revenue, such slight decrease in the net profit of the Target Company during FY2019 was mainly due to, among others, (i) the Target Company having taken on higher margin construction and installation projects during FY2019; (ii) the management service which were charged as a percentage of revenue of the Target Company paid to the Group fell by approximately RMB28.4 million or 36.7% in FY2019 when compared to FY2018, which was in line with the decrease of the Target Company's revenue during FY2019; (iii) the Target Company experienced a reversal of impairment losses on financial assets from an expense of approximately RMB39.0 million in FY2018 to an income of approximately RMB7.3 million in FY2019; and (iv) income tax expenses fell by approximately RMB14.9 million or 23.8% in FY2019 when compared to FY2018.

The revenue of the Target Company was approximately RMB924.0 million for FY2020, representing a decrease of approximately 14.5% as compared to that of FY2019. As a result, the Target Company recorded a net profit of RMB140.0 million in FY2020, representing a decline of approximately RMB53.3 million or 27.6% as compared to a net profit of approximately RMB193.3 million in FY2019. Such decrease in the net profit of the Target Company during FY2020 was mainly due to the decrease in revenue generated from the construction and installation projects during FY2020 as the relevant projects were negatively impacted by the outbreak of COVID-19.

(ii) Financial positions

The following is an extract of the financial positions of the Target Company as at 31 December 2019 and 2020:

Table 5: Summarised financial positions of the Target Company

	As at 31 December 2020 *(RMB'000)* *(Unaudited)*	**As at 31 December 2019** *(RMB'000)* *(Unaudited)*
Current assets		
Inventories	24,494	33,028
Trade and other receivables	4,463,412	3,830,161
Prepayments	23,003	24,621
Cash and cash equivalents	505,661	50,618
	5,016,570	**3,938,428**

	As at 31 December 2020 (RMB'000) (Unaudited)	As at 31 December 2019 (RMB'000) (Unaudited)
Non-current assets		
Property, plant equipment	97,765	104,336
Intangible assets	24,299	25,926
Financial assets at fair value through other comprehensive income	762	762
Deferred income tax assets	13,764	7,340
	136,590	**138,364**
Total assets	**5,153,160**	**4,076,792**
Current liabilities		
Contract liabilities	20,635	46,791
Borrowings	1,160,000	480,000
Trade and other payables	659,402	1,451,880
Current income tax liabilities	35,198	33,416
	1,875,235	**2,012,087**
Non-current liabilities		
Borrowings	200,000	—
Trade and other payables	1,571,901	1,186,478
Deferred income tax liabilities	1,836	1,678
	1,773,737	**1,188,156**
Total liabilities	**3,648,972**	**3,200,243**
Share capital	694,574	560,000
Other reserves	806,853	127,432
Retained earnings	2,761	189,117
Total equity	**1,504,188**	**876,549**

Source: the Target Co Financials

As at 31 December 2020, the total assets of the Target Company were approximately RMB5,153.2 million, representing an increase of approximately RMB1,076.4 million or 26.4% as compared to that as at 31 December 2019 of approximately RMB4,076.8 million. Such increase was attributable to, among others, (i) the increase in the trade and other receivables from approximately RMB3,830.2 million as at 31 December 2019 to approximately RMB4,463.4 million as at 31 December 2020; and (ii) the substantial increase in the cash and cash equivalents from approximately RMB50.6 million as at 31 December 2019 to approximately RMB505.7 million as at 31 December 2020, which according to the Management, was largely attributable to, among others, (i) the First Capital Increase's subscription consideration of RMB300.0 million paid by YAM; and (ii) the Second Capital Increase's Subscription Consideration of RMB500.0 million prepaid by YAM.

The total liabilities of the Target Company were approximately RMB3,649.0 million as at 31 December 2020, representing an increase of approximately RMB448.7 million or 14.0% as compared to that as at 31 December 2019. We note that approximately 98.4% of the total liabilities of the Target Company as at 31 December 2020 was consisted of borrowings and trade and other payables. We note the total equity of the Target Company increased from approximately RMB876.5 million as at 31 December 2019 to approximately RMB1,504.2 million as at 31 December 2020, the increase was mainly due to, among others, (i) the First Capital Increase's subscription consideration of RMB300.0 million paid by YAM; (ii) the Second Capital Increase's Subscription Consideration of RMB500.0 million prepaid by YAM; (iii) the net profit of the Target Company for FY2020 of approximately RMB140.0 million; and offset (iv) by special dividend of approximately RMB312.3 million paid by the Target Company in December 2020 (the "**Special Dividend**").

4 Reasons for and benefits of the Second Capital Increase

As set out in the Letter from the Board, upon completion of the Second Capital Increase, the Group will reduce the asset-liability ratio of both the Target Company and the Group itself and supplement the working capital of the Group through the Second Capital Increase.

As disclosed in the 2019 Annual Report, the PRC economic growth was under a considerable pressure of slowdown as a result of series of uncertainties, such as Sino-US trade frictions. Structural transformation in the environmental protection industry was generally confronted with the problem of liquidity crunch and high financing costs. In view of the severe situation of tightened financing, the Group intends to strengthen its cooperation with financial institutions and employed multiple financial management methods. The Group reduced inefficient deployment of resources to speed up capital turnover, and further improved the operational efficiency and cash generating capacity of existing projects. By increasing the proportion of direct financing in the bond market, the Group optimised the corporate debt structure, and by reducing unreasonable short-term borrowings, lowering financial leverage for finance and increasing financial leverage for operation, buffered the pressure on its operations. As disclosed in the 2020 Annual Report, the Group will continue strengthening the equity financing and reduce financial leverage and consider other ways of financing to improve the existing capital structure, enhance the financing space, realise the repair of performance and valuation, so as to better realise its benign operation. The capital injection from the Second Capital Increase allows the Group to reduce its already high gearing ratio as mentioned in the section above while the Subscription Consideration provides sufficient funding for the capital needs of the operation and future business expansion of the Target Group. Taking into account of the above, we are of the view that the Second Capital Increase is in line with the deleveraging policy taken by the Group.

5 Principal terms of the Second Capital Injection Agreement and the Supplemental Agreement

Date	:	31 December 2020 (after trading hours)
Parties	:	(1) the Company;
		(2) YAM; and
		(3) the Target Company.

The Second Capital Increase

Pursuant to and subject to the terms and conditions set out in the Second Capital Injection Agreement and the Supplemental Agreement, (i) YAM has agreed to further subscribe for the Subscription Shares (representing approximately 23.958% of the registered capital of the Target Company upon completion of the Second Capital Increase) at the consideration of RMB500,000,000 (comprising newly increased registered capital of approximately RMB218,830,700 and capital reserve of approximately RMB281,169,300), and (ii) as part of the transaction, the Company has agreed to reduce its paid-in capital contribution in the Target Company by RMB42,404,100 from RMB560,000,000 to RMB517,595,900 and convert the sum of RMB42,404,100 from registered capital to capital reserve of the Target Company.

Conditions precedent

Upon taking effect of the Second Capital Injection Agreement, the payment of the Subscription Consideration of the Second Capital Increase made by YAM to the Target Company is conditional upon all the following conditions being satisfied or all or part of them being waived by YAM:

1. YAM has completed the due diligence of the Target Company to the satisfaction of YAM.

2. All the relevant review, audit, registration, filing or approval as required by the relevant laws, regulations and regulatory documents, the respective articles of association of all parties to the Second Capital Injection Agreement, for the satisfaction of all relevant requirements and the competent authorities or departments for the Second Capital Increase have been obtained, and the Target Company and the Company have obtained the approval from the competent authorities or departments for the Second Capital Increase.

3. An appraisal agency possessing all valid qualifications as approved by YAM has been selected to complete the asset appraisal of the Target Company, and such appraisal results in respect of the Second Capital Increase have been filed with the competent institutions responsible for the supervision of state-owned assets (if required).

4. Upon completion of the following matters: (i) the Target Company has issued legal and valid written resolutions in accordance with its articles of association, including resolutions of the board of directors, resolutions of the shareholders' meeting or shareholders' decisions, stating that both the Company and YAM have unanimously consented to the Second Capital Increase of RMB500,000,000 by YAM to the Target Company and the Company has waived its subscription rights in respect of the Subscription Shares; and (ii) YAM, the Target Company and the Company have agreed to disclose the information that should be disclosed in accordance with the relevant laws, regulations and regulatory documents in a timely and accurate manner (if required).

5. The relevant agreements in respect of the Second Capital Increase, including but not limited to the legal documents such as the Second Capital Injection Agreement, have been signed by all parties and come into effect, and no default has occurred, or the default has been resolved or waived to the satisfaction of YAM since the date of signing.

6. The Company has reached a written consensus with YAM on the revised contents of the articles of association of the Target Company in respect of the Second Capital Increase (the contents therein must reflect and conform to those as agreed in the Second Capital Injection Agreement).

7. As at the completion date as stipulated in the Second Capital Injection Agreement, the representations, guarantees and undertakings made by the Target Company and the Company under the Second Capital Injection Agreement remain to be true, complete and accurate.

8. As at the completion date as stipulated in the Second Capital Injection Agreement, the financial conditions, business operations and asset conditions of the Target Company and the Company have not experienced any material adverse changes since the signing of the Second Capital Injection Agreement.

9. YAM has internally approved its investment decisions in relation to the Second Capital Increase.

10. The Target Company and the Company have provided YAM with written confirmations executed by their respective legal representatives or authorised representatives with their respective company seals affixed confirming the satisfaction of all conditions precedent with the relevant supporting documents (the contents therein must be approved by YAM).

11. YAM is entitled to decide to pay all or part of the Subscription Consideration in advance according to the actual situation if the above conditions precedent are not fully satisfied, and YAM's early payment of the Subscription Consideration does not constitute a waiver of any of its rights under the Second Capital Injection Agreement, nor does it constitute an affirmation or waiver of other parties' non-performance of their respective contractual obligations, nor a flawed performance of YAM's contractual obligations under the Second Capital Injection Agreement.

YAM may waive all of the conditions precedent set out above. As at the Latest Practicable Date, conditions precedent referred to in paragraphs 1, 3, 6 and 9 above had been fulfilled and YAM intended to waive conditions precedent referred to in paragraphs 4 and 11 above.

Payment of the Subscription Consideration and completion

As agreed by all parties to the Second Capital Injection Agreement, subject to the fulfilment of all conditions precedent as confirmed by YAM, the conditions precedent have been fully or partially waived in writing by YAM, or in accordance with the terms under clause 3.2(11) of the Second Capital Injection Agreement, YAM may settle the Subscription Consideration in cash in one lump sum by transferring the Subscription Consideration to the bank account opened by the Target Company in accordance with terms of the Second Capital Injection Agreement. Completion of the Second Capital Increase shall take place on the payment date of the Subscription Consideration. As at the Latest Practicable Date, the Subscription Consideration had been fully paid by YAM to the bank account of the Company, and completion of the Second Capital Increase shall take place shortly after the conclusion of the EGM as agreed by the parties to the Second Capital Injection Agreement.

Basis of determination of the Subscription Consideration

The Subscription Consideration was determined after arm's length negotiation among the parties to the Second Capital Injection Agreement on normal commercial terms with reference to the appraised net asset value ("**NAV**") of the Target Company as at the Valuation Reference Date (i.e. 30 June 2020) as appraised by the Independent Valuer using the asset-based approach after taking into account of the following factors by the Company, including:

(i) the future development potential of the Target Company, in particular, the Target Company intends to commence certain water related projects (including wastewater treatment projects and water supply projects) and solid waste treatment related projects in 2021; and

(ii) the current situation and future development prospects of the industries in which the Target Company operates.

Similar to the First Capital Increase, the allocation of registered capital of the Target Company to be subscribed by YAM was determined based on the appraised NAV of the Target Company per share of the Target Company as at the Valuation Reference Date. Accordingly, on the basis that NAV per share of the Target Company is RMB2.2849, with the Subscription Consideration of RMB500,000,000, the registered capital of the Target Company to be subscribed by YAM shall amount to approximately RMB218,830,000.

Profit distribution

Since the financial year in which completion of the Second Capital Increase takes place, the distributable profits of the Target Company shall be distributed to the shareholders of the Target Company according to their contribution ratios of the registered capital of the Target Company. Such profit distribution shall be paid in cash.

Cancellation of the Second Capital Injection Agreement

In the event that the Second Capital Injection Agreement is cancelled, the parties to the Second Capital Injection Agreement shall return the Subscription Consideration received from the other party in accordance with the principles of fairness, reasonableness and integrity. Except as otherwise stipulated in the Second Capital Injection Agreement, the Target Company and the Company shall be jointly and severally liable for the refund to YAM of all the Subscription Consideration paid by it. For any outstanding payment overdue, 0.05% of the Subscription Consideration as liquidated damages shall be paid by the aforesaid parties to YAM on a daily basis commencing on the overdue date until all the aforesaid amount including the liquidated damages charged to the Company/the Target Company is settled in full by the Company/the Target Company.

Other terms

For the details of the terms in relation to the corporate governance of the Target Company subsequent to completion of the Second Capital Increase and protection of YAM's shareholder's rights, please refer to the paragraphs headed "Corporate governance of the Target Company subsequent to completion" and "Protection of YAM's shareholder's rights" under the section headed "The Second Capital Injection Agreement and the Supplemental Agreement" in the Letter from the Board.

6 Assessment of the Valuation

6.1.1 Introduction

As discussed in the Letter from the Board, the Subscription Consideration was determined after arm's length negotiations among the parties to the Second Capital Injection on normal commercial terms with reference to, amongst others, the appraised NAV of the Target Company of RMB1,587,012,000 as at Valuation Reference Date, as appraised by the Independent Valuer using asset-based approach. We note that the post-money valuation of the Target Company, taking into account the Subscription Consideration of RMB500,000,000, would be approximately RMB2,087.0 million. The implied post-money valuation for the 23.958% equity interest of the Target Company would be approximately RMB500 million which is almost at par with the Subscription Consideration of RMB500 million.

However, should the Special Dividend of approximately RMB312.3 million was to be taken into account, it can be understood that the post-money valuation of the Target Company would be approximately RMB1,774.7 million. In that case, the implied post-money valuation for the 23.958% equity interest of the Target Company would be approximately RMB425.2 million which is below the Subscription Consideration of RMB500 million YAM is paying under the Second Capital Increase.

The details of the Valuation as at the Valuation Reference Date was prepared by the Independent Valuer. Details of the summary of the Valuation Report is enclosed in Appendix IV to the Circular. In performing the Valuation, the Independent Valuer has complied with all the requirements contained in《資產評估基本準則》(Basic Standards for Asset Valuation*),《資產評估職業道德準則》(Code of Ethics for Asset Valuation*),《資產評估執業準則》(Practicing Standards for Asset Valuation*) and the other related valuation standards published from time to time by the relevant government authorities and industry bodies of the PRC.

6.1.2 Suitability of the Independent Valuer

We have reviewed the Valuation Report and the relevant valuation workings provided by the Independent Valuer and discussed with the relevant staff of the Independent Valuer with particular attention to, among others, (i) the Independent Valuer's terms of engagement with the Target Company; (ii) the Independent Valuer's qualifications and experience in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Independent Valuer in performing the Valuation. For our review of the engagement letter between the Target Company and the Independent Valuer, we are satisfied that the terms of engagement between the Target Company and Independent Valuer are appropriate to the opinion the Independent Valuer is required to give. The Independent Valuer has confirmed that it is independent from the Target Company, the parties to the Second Capital Injection Agreement and the Supplemental Agreement and their respective core connected persons, close associates and associates. Regarding the expertise of the Independent Valuer, we understand that the Independent Valuer is certified with the relevant professional qualifications required to perform the Valuation. The persons in-charge signing the Valuation Report have over 15 years and 10 years respectively of relevant valuation experience. In view of the above, we consider that the Independent Valuer is qualified and possesses sufficient relevant experience in performing the Valuation.

We also note that the Independent Valuer mainly carried out its due diligence through site visit and conducted its own proprietary research and has relied on publicly available information obtained through its own research as well as the financial information provided by the management of the Target Company. We are advised by Independent Valuer that it has assumed such information to be true, complete and accurate and has accepted it without verification.

6.1.3 Valuation Methodology

During our review of the Valuation Report and according to our discussion with the Independent Valuer, in performing the Valuation, the Independent Valuer has considered the three generally accepted approaches to appraise the market value of the entire equity interest of the Target Company, namely the market approach, the income approach and the asset-based approach. As advised by the Independent Valuer, due to the insufficient samples of comparable transactions, the Independent Valuer is of the view that the market approach could not give a meaningful conclusion on the Valuation.

We have also discussed and understood from the Independent Valuer that the environmental protection market is volatile, which is largely influenced by government policies and market financing conditions. Considering the Target Company as a project-based company, the underlying construction projects are not of a recurrent nature and therefore their future income is unpredictable, thereby affecting the reliability of the result driven from the income approach.

The Independent Valuer considered that asset-based approach to be more appropriate for valuing the entire equity interest in the Target Company as the Target Company is a capital-intensive company, the fixed assets of which include construction and machine equipment. The asset-based approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital. In particular, the equity value of the valuation subject is arrived at by summing up the appraised values of each component asset forming the enterprise and then deducting the appraised values of its liabilities. In simpler terms, the asset-based approach values each item of the business entity's asset and liability with the end result being the appraised NAV of such business entity.

As set out in the summary of the Valuation Report enclosed in Appendix IV to the Circular, each asset or liability item were appraised by the Independent Valuer using different valuation methodologies. We note that the appraised value of the entire equity interest of the Target Company of RMB1,587,012,000, representing an increase of approximately RMB567.6 million or 55.7% as compared to the NAV of the Target Company as at the Valuation Reference Date of approximately RMB1,019.4 million. The significant increase in the value of the Target Company was substantially attributable to the value increment of approximately RMB552.4 million arising from the appraisal (the "**YMT Valuation**") as at the Valuation Reference Date (i.e. 30 June 2020) of the Target Company's long-term equity investment in YMT, a key wholly-owned subsidiary of the Target Company, representing a majority of the value increment in the Valuation. According to the financial information disclosed in the Valuation Report, the revenue of YMT for FY2019 and the six months ended 30 June 2020 accounted for approximately 31.6% and 2.4%, respectively, of the consolidated revenue of the Target Company for the corresponding periods, and the net profit of YMT for FY2019 and the six months ended 30 June 2020 represented approximately 66.7% and nil, respectively, of the consolidated net profit of the Target Company for the corresponding periods. As at the Valuation Reference Date (i.e. 30 June 2020), the NAV of YMT was approximately RMB223.3 million, which accounted for approximately 19.4% of the consolidated NAV of the Target Group of RMB1,153.1 million. In addition, the appraised value of YMT is RMB639.0 million, which accounted for approximately 40.3% of the appraised value of the Target Company. We will dedicate the following sub-section headed "6.1.4 Review of the YMT Valuation" below to discuss the review conducted by us on the YMT Valuation with respect to the Target Company's long-term equity investment in YMT.

Apart from the Target Company's long-term equity investment, we note that the value increment in the other assets' value of the Target Company of approximately RMB15.3 million only accounted an insignificant portion of the value increment in the Target Company. Although such value increment is insignificant, we have discussed with the Independent Valuer such key balance sheet items of the Target Company appraised by the Independent Valuer under the asset-based approach and reviewed the methodologies adopted by the Independent Valuer. In particular, we have discussed with the Independent Valuer and gained an understanding of the reasons and benefits of the various valuation methodologies adopted for different types of assets (other than the YMT Valuation), including, among others, verifying/checking the financial statements, market comparison, cost method and a combination of the relevant said methods. After having considered, among others, (i) the relatively small value increment arising from the asset-based approach for these other assets of the Target Company; (ii) the other assets of the Target Company as at the Valuation Reference Date were mainly current assets, the valuation methodologies predominantly involved verifying/checking the financial statements; and (iii) the discussion with the Independent Valuer with respect to the reasons and benefits of the various valuation methodologies adopted for different types of assets (other than the YMT Valuation), we are of the view that the respective appraisals of the other assets of the Target Company and the steps and procedures adopted by the Independent Valuer to be reasonable and appropriate.

6.1.4 Review of the YMT Valuation

In respect of the YMT Valuation, we note that the Independent Valuer has considered three generally accepted valuation approaches, namely the market approach, asset-based approach and income approach, in conducting the YMT Valuation as at the Valuation Reference Date. Due to insufficient comparable transactions with comparable business structure, asset size, scale of operations, profitability and other factors, the Independent Valuer considered that it was not suitable to use market approach. In addition, it was noted that YMT holds various patents and its unique membrane technology is relatively competitive in the industry. After taking into consideration of (i) the advanced technology held by YMT; (ii) the branding advantage in the market; and (iii) the well-developed customer base of YMT, the Independent Valuer is of the view that the asset-based approach may overlook the comprehensive profitability of each asset in the overall asset appraisal and therefore the asset-based approach was not adopted in the YMT Valuation. In respect of the income approach, the Independent Valuer considered that the source of revenue for YMT can be relatively stable in the future. The expected future return is predictable and can be measured in currency. The risk borne by the asset owner to obtain the expected return is also predictable and can be measured in currency. The expected profit period can be predicted by the enterprise. Therefore, it is appropriate to use the income approach for the YMT Valuation. The income approach refers to the evaluation method of capitalising or discounting the expected benefits and determining the value of the appraised object.

When applying the income approach to estimate the market value of the entire shareholder's interests in YMT, it is necessary to determine an appropriate discount rate for the assets under review. We noted that the Independent Valuer has used the weighted average cost of capital model (the "**WACC**") as the discount rate in the YMT Valuation. The WACC has been estimated based on a standard formula incorporating the cost of equity and cost of debt as well as a fixed capital structure. We noted that the Independent Valuer has used the capital asset pricing model (the "**CAPM Model**") to estimate the required rate of return on equity of YMT of approximately 11.9%. The CAPM Model states that the cost of equity is the risk-free rate plus a linear function of a measure of systematic risk times equity market premium in general. We understand that the CAPM Model technique is widely accepted in the investment and financial analysis communities for the purpose of estimating a company's required rate of return on equity. In arriving at the required rate of return on equity of YMT, the Independent Valuer has taken into account a number of factors including (i) risk-free rate; (ii) market return; (iii) size premium; (iv) specific risk premium; and (v) systematic risk or "beta coefficient".

We have discussed with the Independent Valuer and understood the determination basis of each of the abovementioned factors. Regarding the risk-free rate, the Independent Valuer advised that it is a common market practise to adopt the 10-years treasury yield rate of the PRC government bonds of 3.82% as the risk-free rate for the asset in the PRC. The second factor in the model, being the excess market return, represents the sum of (i) 6.43%, being the basic market risk premium, being the simple average of the excess rate of return of the shares over government bond rate in the United States of America between 1928 and 2019; and (ii) 0.69%, being the country risk premium of the PRC by reference to the country credit rating of the PRC as granted by Moody's Investors Service. As such, the market return used in the CAPM Model is approximately 7.12%. In measuring the beta-coefficient (the measure of systematic risk) of YMT of 0.6436, the Independent Valuer multiplies the average of the unleveraged beta-coefficient of market comparable companies of approximately 0.6189 with one plus the debt-to-equity ratio after tax adjustment (dividing the total debt by the total equity and multiplying by one minus tax rate) of YMT of approximately 3.99%. We understood that the market comparable companies were selected based on the following criteria: (i) the company is listed in the PRC; and (ii) the company is principally engaged in similar business activities in the water-related environmental industry as YMT. As advised by the Independent Valuer, due to the relatively small business scale of YMT as compared to the abovementioned market comparable companies, a size premium of 1.50% has been added into the CAPM Model. In addition, taking into consideration that (i) the majority of YMT's products and technology are still being developed; (ii) YMT is currently in the growth stage of its business cycle; (iii) the historical operation performance of YMT; (iv) YMT's reliance on the major customer and supplier; (v) the experience and qualifications of YMT's management; and (vi) the financial risk exposure, the Independent Valuer considered it appropriate to include a specific risk premium of 2% to the CAPM Model. Based on the aforesaid factors, the required rate of return on equity of YMT is estimated by the Independent Valuer to be approximately 11.9%. The Independent Valuer then computed the WACC of 11.6% based on the required rate of return on equity of YMT of 11.9%.

The YMT Valuation is based on operating results over previous years of YMT under the YMT Valuation. Estimates on future operation and revenue of YMT for five years are conducted through analysis over sales quantity, product unit price, costs, business development trends and growth trends. We have discussed with the Independent Valuer and understood that the revenue growth of YMT is expected to be diminishing between 2022 and 2023 and remain stable after 2024. As such, the Independent Valuer is of the view that the cash flow forecast for the coming five years is largely sufficient for the YMT Valuation. Taking into consideration that the principal business of YMT is the manufacture and distribution of water membrane products, the business cycle is relatively short comparing to other companies in infrastructure and utility industry, thus we consider it appropriate to base the YMT Valuation on five-forecast of YMT. For further details of our analysis on the five-year forecast used in the YMT Valuation which constitutes a profit forecast under Rule 14.61 of the Listing Rules, please refer to our report issued in compliance with Rule 14.62 of the Listing Rules as set out in the Appendix VI to the Circular. We noted that the Independent Valuer has considered and relied to a considerable extent on the information provided by the management of YMT. Based on the above, we consider that the assumptions used in the YMT Valuation to be fair and reasonable.

Having discussed with the Independent Valuer and having performed our review as set out above, we considered the valuation methodology in establishing the Valuation (including the YMT Valuation) to be in line with market practices to value businesses of a similar nature.

7 Peer analysis

We understand that the Target Company is principally engaged in municipal public works, environmental protection engineering, engineering technology consulting, membrane products, membrane components and related equipment manufacturing.

To assess the fairness and reasonableness of the Subscription Consideration, we have compared the implied price-to-earnings multiple ("**P/E Multiple**") and the implied price-to-book multiple ("**P/B Multiple**") of the Subscription Consideration against those of the Industry Comparables (as defined below). Given the fact that (i) the Target Company has been consistently recorded positive earnings for the three years ended 31 December 2020, the P/E Multiple is a commonly-used valuation multiple to analyse the company which has a track record of generating profits; and (ii) the principal business activities of the Target Group are in the municipal public construction which heavily relies on the NAV of the Target Group, among the valuation multiples available for our own independent analysis of the Subscription Consideration, we considered the P/E Multiple and P/B Multiple to be the most appropriate valuation multiples for our analysis.

In this regard, we have identified, based on the information extracted from Bloomberg and having applied the selection criteria set out below, an exhaustive list of comparable companies (the "**Industry Comparables**") where:

(i) they are currently listed on the Stock Exchange;

(ii) they are principally engaged in the environmental protection or utilities-related industries;

(iii) they are principally engaged in the provision of engineering, construction and construction consultancy-related services with over 50% of their latest reported annual revenue was generated from the abovementioned business; and

(iv) they had positive earnings in the latest financial year.

Based on the above criteria, set out below are seven Industry Comparables together with the relevant P/E and P/B Multiples, the information of which we consider, to the best of our knowledge and ability, to be fair and representative sample for the purpose of arriving at a meaningful comparison to the Subscription Consideration.

Table 6: List of Industry Comparables

Name	Stock code	Principal business activities	Market Capitalisation *(HK$' million)* *(Note 2)*	P/E Multiple *(x)* *(Note 3)*	P/B Multiple *(x)* *(Note 4)*
FSE Services Group Limited	331	The principal activity of the company is investment holding. The company has 5 major competences: electrical and mechanical engineering, environmental services, cleaning and waste management, professional laundry services as well as property and facility management.	1,611.0	5.3	2.2
Yee Hop Holdings Limited ("**Yee Hop**")	1662	Yee Hop is an investment holding company while the principal subsidiaries are principally engaged in the provision of foundation and other civil works and tunneling works in Hong Kong and research and development and breeding, sales and trading of aquatic products in the PRC.	1,565.0	63.7 *(Note 5)*	4.4
Build King Holdings Limited	240	The company through its subsidiaries, offers construction services. The company constructs public works projects for governmental and quasi-governmental entities in Hong Kong.	1,241.9	2.8	0.8

Name	Stock code	Principal business activities	Market Capitalisation *(HK$' million)* *(Note 2)*	P/E Multiple *(x)* *(Note 3)*	P/B Multiple *(x)* *(Note 4)*
Luzhou Xinglu Water Group Co. Limited	2281	The principal activities of the company and its subsidiaries are mainly engaged in the provision of tap water supply and related installation service, wastewater treatment service and construction service.	911.3	4.0	0.4
Kwan On Holdings Limited	1559	The company is an investment holding company and its subsidiaries are principally engaged in the construction related business and property development in Hong Kong and Southeast Asia.	308.9	19.0	0.6
TBK & Sons Holdings Limited	1960	The company is a civil and structural works contractor undertaking civil and structural works including site preparation works, civil works for process plants and building works in the oil and gas industry in Malaysia.	280.0	12.0	1.0
Macau E&M Holding Limited	1408	The company is an electrical and mechanical engineering services works contractor in Macau, the engineering services works involve a combination of the supply and/or installation of (i) low voltage system works; (ii) heating, ventilation and air-conditioning systems works and (iii) extra low voltage systems works.	245.0	9.5	1.2
			Maximum	63.7	4.4
			Minimum	2.8	0.4
			Average	8.8 *(Note 5)*	1.5
			Median	9.5	1.0
Subscription Consideration				14.9 *(Note 6)*	1.4 *(Note 6)*

Source: Bloomberg and the website of the Stock Exchange

Notes:

1. For the above table, the relevant net profit and NAV figures reported in RMB, Malaysian Ringgit ("**MYR**") and Macau Pataca ("**MOP**") were converted into HK$ at the exchange rates of RMB1:HK$1.1879, MYR1:HK$1.9278 and MOP1:HK$0.9663 respectively.

2. Market capitalisation was as at 31 December 2020, being the date of the Second Capital Injection Agreement and the Supplemental Agreement.

3. The P/E Multiples of the Industry Comparables are calculated by dividing the respective market capitalisation of the Industry Comparable as at 31 December 2020, being the date of the Second Capital Injection Agreement and the Supplemental Agreement, by the net profit attributable to the shareholders of the Industry Comparables as shown in their respective latest published financial results and/or reports.

4. The P/B Multiples of the Industry Comparables are calculated by dividing the respective market capitalisation of the Industry Comparable as at 31 December 2020, being the date of the Second Capital Injection Agreement and the Supplemental Agreement, by the NAV attributable to the shareholders of the Industry Comparables as shown in their respective latest published financial results and/or reports.

5. The P/E Multiple of Yee Hop is considered an outlier and has been excluded from the calculation of the average P/E Multiple as its P/E Multiple is more than doubled the second highest P/E Multiple in the Industry Comparables.

6. The implied market capitalisation of the Target Company under the Subscription Consideration (the "**Implied Market Value**") is approximately RMB2,087.0 million which is calculated by dividing the Subscription Consideration of RMB500,000,000 by 23.958%. The implied P/E Multiple (the "**Implied P/E Multiple**") of approximately 14.94 times is calculated by dividing the aforesaid Implied Market Value of approximately RMB2,087.0 million by the net profit attributable to the shareholders of the Target Company for FY2020 of approximately RMB140.0 million. The implied P/B Multiple (the "**Implied P/B Multiple**") of approximately 1.4 times is calculated by dividing the aforesaid Implied Market Value of approximately RMB2,087.0 million by the NAV attributable to the shareholders of the Target Company as at 31 December 2020 of approximately RMB1,504.2 million.

The P/E Multiples of the Industry Comparables ranged from approximately 2.8 times to approximately 63.7 times while the average (excluded the outlier) and median P/E Multiples are approximately 8.8 times and 9.5 times respectively. The Implied P/E Multiple of approximately 14.9 times is within the range and significantly higher than the average and median of the P/E Multiples of the Industry Comparables. The P/B Multiples of the Industry Comparables ranged from approximately 0.4 times to approximately 4.4 times while the average and median P/B Multiples are approximately 1.5 times and 1.0 times respectively. The Implied P/B Multiple of approximately 1.4 times is within the range, while slightly lower than the average P/B Multiple but is significantly higher than the median P/B Multiple of the Industry Comparables.

Given the fact that both of the Implied P/E Multiple and the Implied P/B Multiple of approximately 14.9 times and 1.4 times, respectively, are within the range and compare well against the respective averages and medians of the Industry Comparables, we consider the Subscription Consideration to be fair and reasonable and in the interest of the Company and the Shareholders as a whole.

8 Financial effects of the Second Capital Increase

The Second Capital Increase pursuant to the Second Capital Injection Agreement and the Supplemental Agreement constitutes a deemed disposal of a non-wholly-owned subsidiary by the Company of approximately 23.958% equity interest in the Target Company.

Upon completion of the Second Capital Increase, the Target Company will remain as a non-wholly-owned subsidiary of the Company. As such, the Target Company and its operating results, assets and liabilities will continue to be consolidated in the financial statements of the Group, albeit with enlarged non-controlling interests. We have reviewed the unaudited pro forma financial information of the Group as set out in Appendix III to the Circular and noted the following financial effects:

As at 31 December 2020, the total assets and liabilities of the Group, as set out in the 2020 Annual Report, amounted to approximately RMB47,252.8 million and RMB39,645.3 million, respectively. We note that, as advised by the Management, as the balance sheet of the Group had already accounted for the Second Capital Increase, the Subscription Consideration of RMB500 million had already been accounted for as cash and cash equivalent in the total assets of the Group as at 31 December 2020 while the total liabilities of the Group as at 31 December 2020 would remain the same. As advised by the Management, the credit balance of the Subscription Consideration of RMB500 million had been also accounted for the total equity of the non-controlling interests of the Group as at 31 December 2020. Given the above, there would be no change in the pro-forma equity of the Group.

As the respective Second Capital Increase in the Target Company by YAM and the Company as the existing shareholders of the Target Company are equity transactions, no gain/loss will be reported in the Company's consolidated statement of profit or loss. However, assuming completion of the Second Capital Increase would take place on 1 January 2020, due to the increase in the share of the results of the Target Company by the non-controlling interests, the net profit attributable to the Shareholders for FY2020 would decrease from approximately RMB223.1 million by approximately RMB33.5 million or 15.0% to approximately RMB189.6 million.

The proceeds from Second Capital Increase will be used as working capital of the Target Company, 19.22% of which will be used for its daily operation such as internal management and financial expenditures, 66.34% of which will be used for plant constructions, equipment and facilities acquisitions and installations and purchases of construction materials for the purposes of the commencement of water related projects, including sewage treatment projects and water supply projects, and 14.44% of which will be used for the purposes of plant constructions and equipment acquisitions for solid waste treatment related projects, respectively.

As the proceeds from the Second Capital Increase will be used as working capital of the Target Company for its daily operation and commencement of water related and solid waste treatment related projects, the immediate effects of the Second Capital Increase on gearing and working capital of the Group would be positive going forward while provides sufficient funding for the capital needs of the operation and future business expansion of the Target Group which is in line with the deleveraging policy taken by the Group.

OPINION AND RECOMMENDATION

Having considered the principal factors and reasons referred to above, in particular that:

(i) the financial performance of the Target Company had deteriorated during FY2020, with revenue and net profit declined by approximately 14.5% and 27.6%, respectively, during FY2020 as compared to those of FY2019 which was mainly attributable to the decrease in the revenue generated from the construction and installation projects as a result of the outbreak of COVID-19 during FY2020;

(ii) the Subscription Consideration was determined after arm's length negotiation among the parties to the Second Capital Injection Agreement on normal commercial terms with reference to the appraised NAV of the Target Company of RMB1,587,012,000 as at the Valuation Reference Date, as appraised by the Independent Valuer using asset-based approach, we consider the relevant appraised value was fairly appraised by the Independent Valuer under the Valuation for which we took comfort;

(iii) the Subscription Consideration of RMB500 million represents a premium of approximately 17.6% over the implied post-money valuation (taking into account the Special Dividend) of the 23.958% equity interest of the Target Company of approximately RMB425.2 million;

(iv) both the Implied P/E Multiple and the Implied P/B Multiple of approximately 14.9 times and 1.4 times, respectively, are within the range and compare well against the respective averages and medians of the Industry Comparables; and

(v) albeit the Group's net profit attributable to the Shareholder will decrease slightly due to the increase in the share of the results of the Target Company by the non-controlling interests, the immediate effects of the Second Capital Increase on gearing and working capital of the Group would be positive going forward while provides sufficient funding for the capital needs of the operation and future business expansion of the Target Group which is in line with the deleveraging policy taken by the Group,

we are of the view that although the entering into of the Second Capital Injection agreement and the Supplemental Agreement is not in the ordinary and usual course of business of the Group, the terms of the Second Capital Injection Agreement and the Supplemental Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM in relation to the Second Capital Increase.

Yours faithfully,
For and on behalf of
Opus Capital Limited
Cheung On Kit Andrew
Executive Director

Mr. Cheung On Kit Andrew is an Executive Director of Opus Capital and is licensed under the SFO as a Responsible Officer to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Mr. Cheung has over 13 years of corporate finance experience in Asia Pacific and has participated in and completed various financial advisory and independent financial advisory transactions.

* *For identification purposes only.*

SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the three years ended 31 December 2020 are disclosed in the following documents which are published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.yunnanwater.cn.

(i) Annual report of the Company for the year ended 31 December 2018 (https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/ltn201904251999.pdf) (the "**2018 Annual Report**")

(ii) Annual report of the Company for the year ended 31 December 2019 (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042802729.pdf) (the "**2019 Annual Report**")

(iii) Annual report of the Company for the year ended 31 December 2020 (https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0428/2021042802606.pdf) (the "**2020 Annual Report**")

WORKING CAPITAL

After taking into account the financial resources available to the Group, including 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 30 April 2021, 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 summarised 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 30 April 2021, the Group had total outstanding borrowings of approximately RMB27,150 million, further details of which are set out below:

	As at 30 April 2021 *RMB'000*
Non-current	
Long-term bank borrowings	
— Secured	14,085,310
— Unsecured	546,262
	14,631,572
Corporate bonds and other borrowings	
— Secured	965
— Unsecured	1,868,401
	16,500,938
Amount due to Shareholders	
— Caiyun International	1,618,193
— YHTH	2,040,483
	20,159,614
Current	
Short-term bank borrowings	
— Secured	744,530
— Unsecured	3,609,234
	4,353,764
Current portion of long-term bank borrowings	
— Secured	2,026,619
— Unsecured	283,296
	6,663,679
Current portion of corporate bonds and other borrowings	
— Secured	35,605
— Unsecured	291,597
Total	**27,150,495**

As at the close of business on 30 April 2021, the Group had borrowings of approximately RMB16,893 million 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 approximately RMB288 million, RMB1,728 million and RMB151 million 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 RMB3,659 million of the Group are unsecured, interest-free and repayable on demand.

Lease liabilities

As at the close of business on 30 April 2021, the Group, as a lessee, had lease liabilities for the remainder of the relevant lease terms amounting to approximately RMB48.9 million 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 authorised 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 30 April 2021 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 2020, 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 face of the severe and complex international situation, the severe impact of the epidemic and the tremendous pressure of the economic downturn, the Group was capable to tackle difficulties in 2020 by overcoming the adverse impact of COVID-19 pandemic, properly dealing with the severe and complex development environment, and carrying out substantial work in project operation, engineering construction and market development.

Going forward in 2021, on the basis of continuing to consolidate the existing project construction progress and operation management level, the Group will strengthen equity financing, reduce financial leverage, and focus on market opportunities in comprehensive solid waste treatment, sludge treatment and comprehensive rural environmental improvement, so as to further improve its profit quality.

The Group will overcome the obstacles brought by the impact of the COVID-19 epidemic, accelerate the implementation progress of projects under construction and planned to ensure the realisation of investment profits as soon as possible; at the same time, the Group will consider other ways of financing, such as equity financing to improve the existing capital structure, enhance the financing space, realise the repair of performance and valuation, so as to better realise the benign operation. Meanwhile, the Group will continue to implement the regional management mode, accelerate the cultivation of key projects through prudent and reasonable capital expenditure, so as to realise the adjustment of income structure and the stable expansion of business. The current plans of disposal of the existing businesses of the Company are set forth below:

(i) on 6 June 2021, the Company entered into an equity acquisition and share issuance agreement (the "**Equity Acquisition and Share Issuance Agreement**") with Zhejiang Qianjiang Biochemical Co., Ltd.* (浙江錢江生物化學股份有限公司) ("**Qianjiang Biochemical**") and Haining Municipal Water Investment Group Co., Limited* (海寧市水務投資集團有限公司) ("**Haining Water Investment Group**"), pursuant to which Qianjiang Biochemical agreed to purchase 51% equity interest in Zhejiang Haiyun Environmental Protection Company Limited* (浙江海雲環保有限公司) ("**Zhejiang Haiyun**"), 40% equity interest in Haining Capital Water Co., Limited* (海寧首創水務有限責任公司) ("**Capital Water**"), 40% equity interest in Haining Shikang Water Printing Co., Ltd.* (海寧實康水務有限公司) ("**Shikang Water**"), 40% equity interest in Haining Lvdong Haiyun Environmental Protection Energy Co., Ltd* (海寧綠動海雲環保能源有限公司) ("**Lvdong Haiyun**") held by Haining Water Investment Group, and 49% equity interest in Zhejiang Haiyun held by the Company by means of non-public issue of shares to Haining Water Investment Group and the Company. Upon completion of the transactions contemplated under the Equity Acquisition and Share Issuance Agreement, Qianjiang Biochemical will hold 100% equity interest in Zhejiang Haiyun, 40% equity interest in Capital Water, 40% equity interest in Shikang Water and 40% equity interest in Lvdong Haiyun. As at the date of this circular, the aforesaid transactions were yet to be completed. For further details, please refer to the announcement of the Company dated 6 June 2021; and

(ii) on 4 March 2021, the Company has resolved to dispose 51% equity interest held by the Company (the "**Disposal Interest**") in Yueyang Dongting Water Investment Co., Ltd.* (岳陽市洞庭水務投資有限公司) ("**Dongting Water**"). As 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 Yunnan Equity Exchange Co. Ltd.* (雲南產權交易所有限公司) ("**YNEX**") and the successful bidder will enter into an 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 (the "**Minimum Consideration**"), 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 plus 10% annualised rate of return", whichever is higher. As at the date of this circular, the valuation report in respect of the appraisal of the value of the equity interest of Dongting Water has not yet been finalised, which will be finalised before the formal tender notice is issued, and thus the asset appraised value is subject to the finalised 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 further details, please refer to the announcement of the Company dated 4 March 2021.

Save as disclosed above, the Company did not have any plan or intention, or has entered into any agreement, arrangement, understanding or negotiation (formal or informal, express or implied) to acquire any new businesses or dispose of any of its existing businesses in the next twelve months as at the Latest Practicable Date.

The Group will continue to carry out benchmarking management. By evaluating the relevant indicators reflecting the performance of operation management, the Group will formulate benchmarking management plan according to the actual situation of the Company and the project to integrate with the annual assessment of operation management. The Group will accelerate the improvement of quality and efficiency of existing projects and further optimise the yield of sewage projects, at the same time, to accelerate the promotion and popularisation of the intelligent water business of the Group, enhance the core competitiveness of the Group's sewage treatment in rural areas, and build up the operation and management advantages of the Group.

The Group will continue to accelerate its progress in technology research and development and market promotion on the basis of core technology, fully tap into the potential of employees, attract and retain talents, and continuously enhance the enterprise's innovation ability and sustainable development ability. At the same time, the Group pays close attention to various new policies and new hot spots in the field of environmental protection industry, pays close attention to technology exploration and technology promotion, cooperates with advantageous enterprises in the industry authorised by the government, provides one-stop solutions to cities and towns in order to further enhance the core competitiveness of the Group.

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 pay close attention to the development of the industry, grasp the industry development trend, further improve the Group's technical strength, core competitiveness and social influence, and constantly create greater value for its shareholders.

* *For identification purposes only*

MANAGEMENT DISCUSSION AND ANALYSIS

Upon completion of the Second Capital Increase, the Target Company will be held as to approximately 56.67% by the Company, and the Target Company will remain as a non wholly-owned subsidiary of the Company and the financial results of the Target Company will continue to be consolidated into the consolidated financial statements of the Group.

Set forth below is the management discussion and analysis of the results of the Group for the three years ended 31 December 2018, 2019 and 2020. Unless otherwise specified, terms used herein shall the same meanings as those defined in the 2018 Annual Report, 2019 Annual Report and 2020 Annual Report.

For the year ended 31 December 2020

Business review

The Group is one of the leading integrated service providers in the urban environmental protection industry in China. The Group mainly adopts the BOT, BOO, TOT, TOO, BT, EPC, ROT, O&M and licensed operation models to provide customised and integrated turnkey solutions for water supply, wastewater treatment and solid waste treatment as well as system integration services of core technologies to customers. The Group's businesses are carried out in the PRC and the Southeast Asian countries, the Group's principal businesses comprise five major segments, namely, wastewater treatment, water supply, solid waste treatment, construction and sales of equipment and others.

As at 31 December 2020, the Group's water related projects (including the following wastewater treatment projects, water supply projects and all water related projects under other business segments) had the total daily treatment capacity of approximately 6,433,600 tonnes. As at 31 December 2020, the Group's solid waste treatment related projects (including the following solid waste treatment projects and all solid waste treatment related projects under other business segments) had the total annual treatment capacity of approximately 4,045,500 tonnes.

Wastewater treatment projects

As at 31 December 2020, the Group had a total of 128 concession wastewater treatment projects, including 7 BOO projects, 69 BOT projects, 2 TOO projects, 20 TOT projects, 2 ROT projects and 28 municipal environment comprehensive treatment projects, with total daily treatment capacity of approximately 3,568,800 tonnes, representing a reduction of 1 TOT project, and an addition of 5 municipal environment comprehensive treatment projects year-on-year, and an increase in the daily wastewater treatment capacity of approximately 188,400 tonnes or a growth rate of approximately 5.6% as compared with the year ended 31 December 2019.

As at 31 December 2020, 93 concession projects with total daily treatment capacity of approximately 2,533,000 tonnes had commenced commercial operation (including 1 municipal environment comprehensive treatment project with a total daily wastewater treatment capacity of approximately 11,000 tonnes), representing a reduction of 1 TOT project, and an addition of 3 BOT projects which commenced operation year-on-year, and an increase in total daily treatment capacity of approximately 55,000 tonnes as compared with the year ended 31 December 2019. During the year ended 31 December 2020, the Group's effective wastewater treatment utilisation rate was approximately 77.4%, and the average unit charge of wastewater treatment was approximately RMB1.47 per tonne.

As at 31 December 2020, 35 concession projects with total daily treatment capacity of approximately 1,035,800 tonnes had not commenced commercial operation (including 27 municipal environment comprehensive treatment projects with total daily treatment capacity of approximately 757,900 tonnes), representing an addition of 6 municipal environment comprehensive treatment projects, 1 municipal environment comprehensive treatment project converted to EPC model, 3 BOT projects under construction converted to operation, and the daily treatment capacity increased by approximately 133,400 tonnes as compared with 31 December 2019.

Water supply projects

As at 31 December 2020, the Group had a total of 68 concession water supply projects with total daily treatment capacity of approximately 2,480,100 tonnes, including 15 BOO projects, 36 BOT projects, 11 TOT projects and 6 municipal environment comprehensive treatment projects, representing an addition of 1 BOT project and 1 municipal environment comprehensive treatment project, and an increase in total daily capacity of approximately 35,000 tonnes as compared with 31 December 2019, representing a growth rate of approximately 1.4%.

As at 31 December 2020, 46 concession projects with total daily capacity of approximately 1,530,000 tonnes had commenced commercial operation (including 1 municipal environment comprehensive treatment project with a total daily treatment capacity of approximately 30,000 tonnes), representing an addition of 8 BOT projects, and an increase in the total daily capacity of approximately 125,000 tonnes as compared with 31 December 2019. During the year ended 31 December 2020, the Group's commercial water supply decreased due to the impact of the COVID-19 pandemic. the Group's effective water supply utilisation rate was approximately 63.8%, and the average unit charge of water supply was approximately RMB2.24 per tonne.

As at 31 December 2020, 22 concession projects with total daily capacity of approximately 950,100 tonnes had not commenced commercial operation (including 5 municipal environment comprehensive treatment projects with total daily treatment capacity of approximately 429,700 tonnes), representing an addition of 1 PPP project and 1 BOT project, 8 BOT projects under construction converted to operation, and the total daily capacity decreased by approximately 90,000 tonnes as compared with 31 December 2019.

Solid waste treatment projects

As at 31 December 2020, the Group had 23 solid waste treatment projects with total annual treatment capacity of 4,045,500 tonnes, 8 of which with an annual treatment capacity of 1,169,400 tonnes had commenced commercial operation and 15 of them with an annual treatment capacity of 2,876,100 tonnes were under construction (including 3 municipal environment comprehensive treatment projects with an annual treatment capacity of approximately 1,119,800 tonnes, and the municipal environment comprehensive treatment projects were reduced by 1 as compared with 31 December 2019, because the project converted to BOT model). As compared to 31 December 2019, 2 additional solid waste treatment projects were under construction and the total annual treatment capacity increased by 474,500 tonnes. During the year ended 31 December 2020, the Group's effective solid waste treatment utilization rate was approximately 80.4%.

Construction and sales of equipment

The Group's construction and sales of equipment segment comprises BT projects, EPC projects and sales of equipment. As at 31 December 2020, the Group had a total of 11 BT projects, which were either under construction and/or completed, among which revenue of 10 BT projects was recognised during the year ended 31 December 2020.

During the year ended 31 December 2020, the Group had a total of 13 EPC projects, representing an addition of 2 EPC project as compared with 31 December 2019.

The Group engages in the production, sales and installation of equipment for wastewater treatment, water supply, solid waste treatment and other infrastructure facilities. The major category of water related equipment in the Group's production is membrane. Most of the membrane products are produced by the own plant of the Group.

Others

During the year ended 31 December 2020, the Group also undertook O&M projects for wastewater treatment and water supply owned by third parties as well as provision of technical and consultancy services in relation to environmental protection. As at 31 December 2020, the Group had 29 O&M projects, representing a reduction of 1 wastewater treatment project as compared with 31 December 2019. These projects included 28 wastewater treatment projects with total daily treatment capacity of approximately 379,700 tonnes (including the capacity of wastewater treatment projects adopting O&M model within municipal environment comprehensive treatment projects), and 1 water supply project with daily treatment capacity of approximately 5,000 tonnes.

Financial review

Revenue of the Group increased from approximately RMB6,538.1 million for the year ended 31 December 2019 to approximately RMB8,396.6 million for the year ended 31 December 2020, representing an increase of approximately 28.4%. In respect of the business segments of the Group, revenue from wastewater treatment significant increased from approximately RMB2,978.4 million for the year ended 31 December 2019 to approximately RMB5,286.5 million for the year ended 31 December 2020. Revenue from water supply decreased by approximately 20.7% from approximately RMB1,230.7 million for the year ended 31 December 2019 to approximately RMB975.6 million for the year ended 31 December 2020. Revenue from solid waste treatment decreased by approximately 11.1% from RMB1,514.6 million for the year ended 31 December 2019 to approximately RMB1,346.7 million for the year ended 31 December 2020. Revenue from construction and sales of equipment decreased by approximately 13.1% from approximately RMB714.6 million for the year ended 31 December 2019 to approximately RMB621.1 million for the year ended 31 December 2020. Revenue from other business increased from approximately RMB99.8 million for the year ended 31 December 2019 to approximately RMB166.7 million for the year ended 31 December 2020.

For the year ended 31 December 2020, the Group's audited profit attributable to ordinary Shareholders amounted to approximately RMB223.1 million (for the year ended 31 December 2019: approximately RMB398.2 million). Basic earnings per share for the year ended 31 December 2020 was approximately RMB0.187 per share (for the year ended 31 December 2019: basic earnings approximately RMB0.334 per share), the calculation of such basic earnings per share amount is based on the profit attributable to ordinary shareholders of the Company, and the weighted average number of Shares of approximately of 1,193,213,000 (2019: 1,193,213,000) in issue for the year ended 31 December 2020.

Liquidity and financial resources

The Group's monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operations, borrowings and perpetual capital instruments from financial institutions.

As at 31 December 2020, the cash and cash equivalents of the Group amounted to approximately RMB1,697,688,000 (2019: RMB2,468,435,000), which were denominated in the following currencies:

	As at 31 December	
	2020	**2019**
	RMB'000	*RMB'000*
RMB	1,654,934	2,386,579
USD	25,249	31,098
IDR	9,329	8,072
THB	4,868	38,681
HKD	2,821	2,769
SGD	487	1,236
	1,697,688	2,468,435

The Group is in a capital-intensive industry and primarily finance its operation by long-term borrowings from financial institutions or capital contribution from equity owners when the construction projects are in early stage of their business cycles but sometimes short-term borrowings are utilised. The Group recorded net current liabilities of approximately RMB2,777 million as at 31 December 2020, which is mainly because the Group has utilised certain short-term borrowings to tentatively finance its long-term assets under construction.

As at 31 December 2020, the Group had borrowings of approximately RMB27,541.8 million (31 December 2019: approximately RMB21,618.9 million). As at 31 December 2020, the Group had unsecured borrowings of approximately RMB15,365.8 million (31 December 2019: approximately RMB12,885.1 million), and secured borrowings of approximately RMB12,176.0 million (31 December 2019: approximately RMB8,733.8 million). As at 31 December 2020, the Group has fixed rate borrowings amounting to approximately RMB17,233 million (31 December 2019: RMB13,898 million). The Group's borrowings were denominated as follows:

The Group's borrowings were denominated in:

	As at 31 December	
	2020	**2019**
	RMB'000	*RMB'000*
RMB	25,320,134	18,839,068
USD	2,130,805	2,678,177
THB	70,393	80,316
EUR	20,483	21,369
	27,541,815	21,618,930

As at 31 December 2020, the Group's borrowings were repayable as follows:

	As at 31 December	
	2020	**2019**
	RMB'000	*RMB'000*
Within one year	9,675,894	6,419,405
One to two years	5,912,923	6,728,125
Two to five years	5,815,518	4,717,535
Over five years	6,137,480	3,753,865
	27,541,815	21,618,930

The Group monitors capital on the basis of the gearing ratio, calculated as net debt divided by total capital. The gearing ratio of the Group was approximately 77.26% as at 31 December 2020 (2019: 69.14%). In respect of financial resources available, the Group has reached an investment cooperation intention with a trust company on the scale of about RMB2 billions of perpetual bond, and the specific cooperation scheme is under final consideration by both parties.

As at 31 December 2020, the Group had capital commitment outstanding of approximately RMB12,780,090,000 (2019: RMB12,654,955,000).

The Group did not use any financial instruments for hedging purposes and did not have foreign currency investments being hedged by foreign currency borrowings and other hedging instruments.

Significant investments and material acquisitions and disposals

1. On 17 June 2020, the Company entered into a capital increase agreement with Yunnan Asset Management Co., Ltd.* (雲南省資產管理有限公司) ("**Yunnan Asset Management**") and Yunnan Yunshui Construction & Engineering Co., Ltd.* (雲南雲水建設工程有限公司) (the "**Target Company**"), pursuant to which Yunnan Asset Management has agreed to subscribe for the interests in the Target Company (representing 19.38% of the registered capital of the Target Company on a fully diluted basis as enlarged by the capital increase) at a consideration of RMB300,000,000 (including the additional registered capital of approximately RMB134,573,800 and capital reserve of approximately RMB165,426,200). On 31 December 2020, the Company entered into the second capital injection agreement and the supplemental agreement with Yunnan Asset Management and the Target Company, pursuant to which Yunnan Asset Management agreed to (i) further subscribe for the subscription shares (representing approximately 23.958% of the registered capital of the Target Company upon completion of the Second capital increase) at a consideration of RMB500,000,000 (including the additional registered capital of approximately RMB218,830,700 and capital reserve of approximately RMB281,169,300), and (ii) as part of the transaction, the Company agreed to reduce its paid-up capital in the Target Company by RMB42,404,100, from RMB560,000,000 to RMB517,595,900 and to convert RMB42,404,100 from the registered capital to the capital reserve of the Target Company. Upon completion of the second capital increase, the registered capital of the Target Company will be increased from RMB694,573,800 as at the date of this announcement to RMB913,404,500 and the Target Company will be owned as to approximately 56.667% and approximately 43.333% by the Company and Yunnan Asset Management respectively, therefore, the Target Company will remain a subsidiary of the Company and its accounts will continue to be consolidated with those of the Group.

2. Pursuant to a renewable trust loan contract dated 11 September 2020 entered into between the Company and Yunnan International Trust Co. Ltd.* (雲南國際信託有限公司) (the "**Lender**"), the Lender has granted to the Company a loan with a principal amount of up to RMB500,000,000 for a term of 12 months from the date of the trust loan contract, subject to renewal for an additional term. In respect of the loans granted by the Lender to the Company, the trust funds are entrusted by the banks to the Lender pursuant to the capital trust contract. In relation to the Trust Loan Contract, Yunnan Investment Holdings Group Company Limited* (雲南省投資控股集團有限公司) ("**Yunnan Investment Group**") entered into a guarantee agreement in favour of the Lender to guarantee the repayment obligations of the Company under the Trust Loan Contract. As part of the counter-guarantee, on 11 December 2020, the Company entered into an equity pledge agreement with the Yunnan Investment Group, pursuant to which the Company (as pledgee) has agreed to pledge its entire equity interest in Yunnan Solid Waste (雲南固廢) to the Yunnan Investment Group (as pledgee) as security for the Parent Company Guarantee provided by the Yunnan Investment Group in favour of the Lender under the Guarantee Agreement. On the same date, in consideration of the Parent Company Guarantee, the Company entered into a guarantee fee agreement with the Yunnan Investment Group, pursuant to which the Company shall pay to Yunnan Investment Group, as part of the Counter Guarantee, an annual guarantee fee calculated at 1% of the actual drawdown of the Loan Amount in the relevant year pursuant to the trust loan agreement.

3. On 9 December 2020, Qinggeda Yunshui entered into a finance lease agreement with CITIC Financial Leasing, pursuant to which CITIC Financial Leasing has agreed to, among other things, (i) acquire the leased assets from the Lessee at a consideration of RMB90,000,000, which will be paid to the Lessee in a lump sum and (ii) lease the leased assets back to the Lessee for a term of five years with an estimated total lease payment of RMB106,419,400, of which the total rent will be paid by the Lessee in ten equal principal instalments to CITIC Financial Leasing.

4. On 9 December 2020, Kaifa Xinquan (Tiantai) entered into a finance lease contract with ABC Financial Leasing, pursuant to which ABC Financial Leasing has agreed to, among other things, (i) acquire the leased assets from Kaifa Xinquan (Tiantai) at a consideration of RMB110,000,000, which will be paid to Kaifa Xinquan (Tiantai) in installments and (ii) lease the leased assets back to Kaifa Xinquan (Tiantai) for a term of 10 years with a total lease payment of approximately RMB140,458,006.37, which will be paid by Kaifa Xinquan (Tiantai) to ABC Financial Leasing in 20 equal installments.

5. On 9 December 2020, Dali Water entered into a 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 the leased assets back to the lessee for a term of 60 months with an estimated total lease payment of RMB68,626,841.60, which will be paid by the Lessee to BoCOM Leasing in 20 equal installments.

6. On 27 November 2020, Dali Water entered into a 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 RMB140,000,000 and (ii) lease back the leased assets to the lessee with the lease term for 60 months and an estimated total lease payment of RMB160,129,296.80, which will be paid by the Lessee to BoCom Leasing in 20 equal installments.

7. On 23 October 2019, 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) entered into a shareholders agreement with the Company and China Urban Construction Design & Research Institute*(中國城建研究院), pursuant to which the parties to the shareholders agreement agreed to establish the JV company in Tongren City, Guizhou Province, the PRC. On 14 October 2020, the JV Company was established, the registered capital of which has not been paid up by the parties yet. Due to changes in the macroeconomic conditions of our country, adjustments to environmental protection policies and regulation of the financing environment, in order to adapt to such objective environments, Tongren Municipal People's Government, Guizhou Province, the PRC* (中國貴州省銅仁市人民政府) ("**Tongren Municipal Government**") intends to change the investment model of the PPP project. As agreed between the parties with negotiation, the PPP project contract and the shareholders agreement shall be terminated and released. After negotiation with the Tongren Municipal Government, the costs incurred for design and leveling of the construction site under the PPP project shall be paid by the government directly to the design or construction units. The parties will carry out the dissolution and liquidation of the JV company in accordance with the Company Law and relevant provisions set out in the shareholders agreement.

8. On 29 September 2020, the Company (as the vendor) and Fuzhou Dingrong Environmental Protection Technology Co., Ltd.* (福州市鼎榕環保科技有限公司), (as the purchaser) entered into an 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 40% interest in Fujian Dongfei Environment Group Co., Ltd* (福建東飛環境集團有限公司) legally and beneficially owned by the Company at the consideration of RMB375,200,000. Upon completion of the disposal, the Company shall cease to have any interest in the target company.

9. On 20 September 2020, HLJ Yunshui entered into a 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 RMB98,000,000, which will be paid to the lessee and (ii) lease back the leased assets to the lessee with the lease term for 60 months and an estimated total lease payment of RMB114,443,086, of which the total rentals will be paid by the lessee to BoCom Leasing in 20 installments.

10. On 7 August 2020, (I) the Company, Shandong Qingzheng and AVIC International Leasing entered into finance lease agreement A, pursuant to which, AVIC International Leasing has agreed (among others) (i) to purchase the leased asset A from lessee A at the consideration of RMB90,000,000 and pay the consideration to lessee A in two installments and (ii) to lease back the leased asset A to lessee A, with the lease term of five years (60 months) and the total rent of RMB104,724,895.00 estimated by the matching principal method, which will be paid by Lessee A to AVIC International Leasing in 10 installments; (II) the Company, Shandong Binxin and AVIC International Leasing entered into finance lease agreement B, pursuant to which, AVIC International Leasing has agreed (among others) (i) to purchase the leased asset B from lessee B at the consideration of RMB160,000,000 and pay the consideration to lessee B in two installments and (ii) to lease back the leased asset B to lessee B, with the lease term of five years (60 months) and the total rent of RMB186,177,591.12 estimated by the matching principal method, which will be paid by lessee B to AVIC International Leasing in 10 installments.

11. On 17 June 2020, the Company, Emin Water and China Resources Financial Leasing entered into a finance lease agreement, pursuant to which, China Resources Financial Leasing has agreed to, among other things, (i) acquire the leased assets from the lessees at a consideration of RMB300,000,000, which will be paid to the lessees in a lump sum and (ii) lease back the leased assets to the lessees with the lease term of 60 months and the total lease payment is estimated to be RMB356,753,891.88, in which, total rents will be paid by the lessees to China Resources Financial Leasing in 20 installments.

12. On 12 June 2020, Qinggeda Yunshui and CITIC Financial Leasing entered into a finance lease agreement, pursuant to which, CITIC Financial Leasing has agreed to, among other things, (i) acquire the leased assets from the lessee at a consideration of RMB210,000,000, which will be paid to the lessee in a lump sum and (ii) lease back the leased assets to the lessee with the lease term of five years and the total lease payment is estimated to be RMB247,887,266.66, in which, total rents will be paid by the lessee to CITIC Financial Leasing in ten equal instalments of principal.

13. On 14 May 2020, the Company together with Hunan No. 8 Engineering Co., Ltd.* (湖南省第八工程有限公司) and Guangzhou Public Utilities Planning & Design Institute Co., Ltd.* (廣州市公用事業規劃設計院有限公司) were formally awarded the public-private-partnership project of facilitating the construction of domestic wastewater treatment facilities in Lu Feng by the People's Government of Lu Feng, Shanwei City, Guangdong Province by way of public tender. The total estimated investment amount of the project is approximately RMB1,592,590,000.

14. On 22 April 2020, the Company together with 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 Powerchina Northwest Engineering Corporation Limited* (中國電建集團西北勘測設計研究院有限公司) were formally awarded the concession project of Tailan River depression reservoir engineering in Wensu County, which is granted by the People's Government of Wensu County, Aksu Region, Xinjiang Uygur Autonomous Region by way of public tender. The total estimated investment of the project amounted to approximately RMB1,355,183,900.

15. On 13 March 2020, the Company together with 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 Construction Engineering Third Construction Limited Liability Company* (江西建工第三建築有限責任公司) were awarded the public-private partnership project of the facilitating construction in relation to the new round of the urban and rural wastewater treatment in Yingde, which is granted by the People's Government of Yingde City, Guangdong Province by way of public tender. The total estimated investment of the Project amounted to approximately RMB626,850,500.

16. On 10 March 2020, Langfang Hyflux entered into (I) a sale and purchase contract and (II) a leaseback contract with Greatwall Guoxing, pursuant to which, Greatwall Guoxing has agreed to, among other things, (i) acquire the leased assets from Langfang Hyflux at a consideration of RMB380,000,000, which will be paid to Langfang Hyflux in one lump sum and (ii) lease back the leased assets to Langfang Hyflux with the lease term for 60 months, and a total lease payment of approximately RMB458,236,994.99 shall be paid by Langfang Hyflux to Greatwall Guoxingin in 10 installments at floating lease rate.

17. On 20 February 2020, Sanming Jinliya entered into a finance lease agreement with ABC Financial Leasing, pursuant to which, ABC Financial Leasing has agreed to, among other things, (i) acquire the leased assets from Sanming Jinliya at a consideration of RMB300,000,000, which will be paid to Sanming Jinliya by instalments and (ii) lease back the leased assets to Sanming Jinliya with the lease term for 8 years and a total lease payment of approximately RMB371,474,504.84, the principal and interest of which will be paid by Sanming Jinliya to ABC Financial Leasing in 32 equal installments.

Employees and remuneration policy

As at 31 December 2020, the Group employed 7,007 employees (31 December 2019: 6,666). During the year ended 31 December 2020, staff cost was approximately 588.9 million (for the year ended 31 December 2019: 605.3 million). The Group will strive to ensure that the remuneration level of employees is in line with industry practices and prevailing market conditions, and remunerations of employees will be determined based on their performance. The remuneration package provided to employees also includes basic and floating salaries, discretionary bonus and staff benefits. The Group also provides external and internal training programmes for its employees.

The Group did not experience any significant labour disputes causing any material impact on its normal business operations.

Pledge of assets

As at 31 December 2020, borrowing of approximately RMB12,176.0 million (31 December 2019: approximately RMB8,733.8 million) were secured by the Group's receivables under service concession arrangements, contract assets, right-of use assets, property, plant and equipment, intangible assets and the Company's investments in subsidiaries.

Foreign exchange risk

The Group principally operates in the PRC with most of the transactions being settled in RMB, which is the functional currency of most of the group entities. The Group also has certain subsidiaries in foreign operations. Foreign exchange risk arises from the recognised assets and liabilities and net investments in foreign operations. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through financing activities denominated in the relevant foreign currencies.

The group entities are exposed to foreign exchange risk of foreign currencies other than their functional currencies, primarily with respect to the US dollars ("**US$**"), Euro ("**EUR**") and Hong Kong dollars ("**HKD**") (together "**Non-functional Currencies**"). The Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimising its net foreign currency position. Management considers the fluctuations in exchange rates between the functional currencies of respective group entities and Non-functional Currencies in which the group entities conduct business will not have significant effect on the Group's financial position and results of operations.

Contingent liabilities

As at 31 December 2020, the Group did not have any significant contingent liabilities.

For the year ended 31 December 2019

Business review

The Group is one of the leading integrated service providers in the urban environmental protection industry in China. The Group mainly adopts the BOT, BOO, TOT, TOO, BT, EPC, ROT, O&M and licensed operation models to provide customised and integrated turnkey solutions for water supply, wastewater treatment and solid waste treatment as well as system integration services of core technologies to customers. The Group's businesses are carried out in China and the Southeast Asian countries, the Group's principal businesses comprise five major segments, namely, wastewater treatment, water supply, solid waste treatment, construction and sales of equipment and others.

As at 31 December 2019, the Group's water related projects (including the following wastewater treatment projects, water supply projects and all water related projects under other business segments) had the total daily treatment capacity of approximately 6,220,200 tonnes. As at 31 December 2019, the Group's solid waste treatment related projects (including the following solid waste treatment projects and all solid waste treatment related projects under other business segments) had the total annual treatment capacity of approximately 3,571,000 tonnes.

Wastewater treatment projects

As at 31 December 2019, the Group had a total of 124 concession wastewater treatment projects, including 7 BOO projects, 69 BOT projects, 2 TOO projects, 21 TOT projects, 2 ROT projects and 23 municipal environment comprehensive treatment projects, with total daily treatment capacity of approximately 3,380,400 tonnes, representing an addition of 1 BOT project, 1 TOT project, 1 ROT project and 6 municipal environment comprehensive treatment projects year-on-year, and an increase in the daily wastewater treatment capacity of approximately 353,200 tonnes or a growth rate of approximately 11.7% as compared with the year ended 31 December 2018.

As at 31 December 2019, 91 concession projects with total daily treatment capacity of approximately 2,478,000 tonnes had commenced commercial operation (including 1 municipal environment comprehensive treatment project with a total daily wastewater treatment capacity of approximately 16,000 tonnes), representing an addition of 1 TOT project, an addition of 5 BOT projects, 1 ROT project and 1 municipal environment comprehensive treatment project which commenced operation year-on-year, and an increase in total daily treatment capacity of approximately 126,000 tonnes compared with the year ended 31 December 2018. During the year ended 31 December 2019, the Group's effective wastewater treatment utilisation rate was approximately 77.35%, and the average unit charge of wastewater treatment was approximately RMB1.40 per tonne.

As at 31 December 2019, 33 concession projects with total daily treatment capacity of approximately 902,400 tonnes had not commenced commercial operation (including 22 municipal environment comprehensive treatment projects with total daily treatment capacity of approximately 544,500 tonnes), representing an addition of 1 ROT project, 1 BOT project, 6 municipal environment comprehensive treatment projects as compared with 31 December 2018. 5 BOT projects, 1 ROT project and 1 municipal environment comprehensive treatment project under construction converted to operation. The daily treatment capacity increased by approximately 227,200 tonnes.

Water supply projects

As at 31 December 2019, the Group had a total of 66 concession water supply projects with total daily treatment capacity of approximately 2,445,100 tonnes, including 15 BOO projects, 35 BOT projects, 11 TOT projects and 5 municipal environment comprehensive treatment projects, representing an addition of 4 BOT projects, and an increase in total daily capacity of approximately 224,100 tonnes compared with 31 December 2018, representing a growth rate of approximately 10.1%.

As at 31 December 2019, 38 concession projects with total daily capacity of approximately 1,405,000 tonnes had commenced commercial operation (including 1 municipal environment comprehensive treatment project with a total daily treatment capacity of approximately 30,000 tonnes), representing an addition of 6 BOT projects, 1 municipal environment comprehensive treatment project, and a reduction of 1 BOO project, and an increase in the total daily capacity of approximately 120,000 tonnes as compared with 31 December 2018. During the year ended 31 December 2019, the Group's effective water supply utilisation rate was approximately 74.27%, and the average unit charge of water supply was approximately RMB2.46 per tonne.

As at 31 December 2019, 28 concession projects with total daily capacity of approximately 1,040,100 tonnes had not commenced commercial operation (including 4 municipal environment comprehensive treatment projects with total daily treatment capacity of approximately 409,700 tonnes), representing an addition of 1 BOO project, 4 BOT projects year-on-year. 6 BOT projects and 1 municipal environment comprehensive treatment project under construction converted to operation. The total daily capacity increased by approximately 104,100 tonnes.

Solid waste treatment projects

As at 31 December 2019, the Group had 21 solid waste treatment projects with total annual treatment capacity of 3,571,000 tonnes, 8 of which with an annual treatment capacity of 1,169,400 tonnes had commenced commercial operation and 13 of them with an annual treatment capacity of 2,401,600 tonnes were under construction (including 4 municipal environment comprehensive treatment projects with an annual treatment capacity of approximately 1,137,800 tonnes). As compared to 31 December 2018, 2 additional solid waste treatment projects were under construction and the total annual treatment capacity increased by 43,500 tonnes. During the year ended 31 December 2019, the Group's effective solid waste treatment utilisation rate was approximately 85.38%.

Construction and Sales of Equipment

The Group's construction and sales of equipment segment comprises BT projects, EPC projects and sales of equipment. As at 31 December 2019, the Group had a total of 11 BT projects, which were either under construction and/or completed, among which income of 10 BT projects was recognised during the year ended 31 December 2019.

During the year ended 31 December 2019, the Group had a total of 11 EPC projects, representing an addition of 1 EPC project as compared with 31 December 2018.

The Group engages in the production, sales and installation of equipment for wastewater treatment, water supply, solid waste treatment and other infrastructure facilities. The major category of water related equipment in the Group's production is membrane. Most of the membrane products are produced by the own plant of the Group.

Others

During the year ended 31 December 2019, the Group also undertook O&M projects for wastewater treatment, water supply and solid waste treatment facilities owned by third parties as well as provision of technical and consultancy services in relation to environmental protection. As at 31 December 2019, the Group had 30 O&M projects, representing a reduction of 1 wastewater treatment project, and 1 solid waste treatment project as compared with 31 December 2018. These projects included 29 wastewater treatment projects with total daily treatment capacity of approximately 389,700 tonnes (including the capacity of wastewater treatment projects adopting O&M model within municipal environment comprehensive treatment projects), and 1 water supply project with daily treatment capacity of approximately 5,000 tonnes.

Financial review

Revenue of the Group increased from approximately RMB6,255.6 million for the year ended 31 December 2018 to approximately RMB6,538.1 million for the year ended 31 December 2019, representing an increase of approximately 4.5%. In respect of the business segments of the Group, revenue from wastewater treatment decreased by 9.6% from approximately RMB3,295.0 million for the year ended 31 December 2018 to approximately RMB2,978.4 million for the year ended 31 December 2019. Revenue from water supply increased by approximately 5.0% from approximately RMB1,171.8 million for the year ended 31 December 2018 to approximately RMB1,230.7 million for the year ended 31 December 2019. Revenue from solid waste treatment increased by approximately 102.2% from RMB749.0 million for the year ended 31 December 2018 to approximately RMB1,514.6 million for the year ended 31 December 2019. Revenue from construction and sales of equipment decreased by approximately 26.2% from approximately RMB967.9 million for the year ended 31 December 2018 to approximately RMB714.6 million for the year ended 31 December 2019. Revenue from other business increased by 38.8% from approximately RMB71.9 million for the year ended 31 December 2018 to approximately RMB99.8 million for the year ended 31 December 2019.

For the year ended 31 December 2019, the Group's audited profit attributable to ordinary shareholders of the Company amounted to approximately RMB398.2 million (for the year ended 31 December 2018: approximately RMB397.8 million). Basic earnings per share for the year ended 31 December 2019 was approximately RMB0.334 per share (for the year ended 31 December 2018: basic earnings approximately RMB0.333 per share), the calculation of such basic earnings per share amount is based on the profit attributable to ordinary shareholders of the Company, and the weighted average number of Shares of approximately of 1,193,213,000 (2018: 1,193,213,000) in issue for the year ended 31 December 2019.

Liquidity and financial resources

The Group's monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operations, borrowings and perpetual capital instruments from financial institutions.

As at 31 December 2019, the cash and cash equivalents of the Group amounted to approximately RMB2,468,435,000 (2018: RMB2,214,352,000), which were denominated in the following currencies:

	As at 31 December	
	2019	**2018**
	RMB'000	*RMB'000*
RMB	2,386,579	2,089,479
THB	38,681	60,966
USD	31,098	49,584
IDR	8,072	10,094
HKD	2,769	2,949
SGD	1,236	1,280
	2,468,435	2,214,352

As at 31 December 2019, the Group had borrowings of approximately RMB21,618.9 million (31 December 2018: approximately RMB16,934.5 million). As at 31 December 2019, the Group had unsecured borrowings of approximately RMB5,121.6 million for current portion and RMB7,763.5 million for non-current portion (31 December 2018: total approximately RMB11,702.3 million), and secured borrowings of approximately RMB1,297.8 million for current portion and RMB7,436.0 million for non-current portion (31 December 2018: total approximately RMB5,232.2 million). As at 31 December 2019, the Group has fixed rate borrowings amounting to approximately RMB13,898 million (31 December 2018: RMB11,685 million). The Group's borrowings were denominated as follows:

	As at 31 December	
	2019	**2018**
	RMB'000	*RMB'000*
RMB	18,839,068	13,644,864
USD	2,678,177	3,175,251
THB	80,316	92,207
EUR	21,369	22,204
	21,618,930	16,934,526

As at 31 December 2019, the Group's borrowings were repayable as follows:

	As at 31 December	
	2019	**2018**
	RMB'000	*RMB'000*
Within one year	6,419,405	5,755,534
One to two years	6,728,125	3,365,440
Two to five years	4,717,535	5,692,614
Over five years	3,753,865	2,120,938
	21,618,930	16,934,526

The Group monitors capital on the basis of the gearing ratio, calculated as net debt divided by total capital. The Group's gearing ratio increased from approximately 67.98% as at 31 December 2018 to approximately 69.14% as at 31 December 2019.

As at 31 December 2019, the Group had capital commitment outstanding of approximately RMB12,654,955,000 (2018: RMB10,175,463,000).

The Group did not use any financial instruments for hedging purposes and did not have foreign currency investments being hedged by foreign currency borrowings and other hedging instruments.

Significant investments and material acquisitions and disposals

1. On 19 November 2019, the Company together with CATIC Construction Engineering Company Limited* (中航建築工程有限公司) were formally awarded the PPP project in relation to the engineering construction of water supply and drainage and supporting municipal infrastructures in Yila Lake Circular Economy Industrial Park, Toksun County, which is granted by the People's Government of Toksun County, Turpan City, Xinjiang Uygur Autonomous Region (新疆維吾爾自治區吐魯番市托克遜縣人民政府), the PRC by way of public tender. The total estimated investment of the project amounted to approximately RMB381,400,000.

2. On 7 November 2019, the PPP project for facilitating the Construction of Domestic Wastewater Treatment Facilities in the Entire Qingxin District of Qingyuan was formally awarded to the Company, Guangzhou Water & Electricity Equipment Installation Co., Ltd.*(廣州市水電設備安裝有限公司) and Guangzhou Public Utilities Planning & Design Institute Co., Ltd.*(廣州市公用事業規劃設計院有限責任公司) by the People's Government of Qingxin District, Qingyuan City, Guangdong Province (廣東省清遠市清新區人民政府), the PRC by way of public tender. The total estimated investment amount of the project was approximately RMB191,111,500.

3. On 23 October 2019, 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) entered into the joint venture agreement with the Company and China Urban Construction Design & Research Institute in relation to the establishment of the JV Company, namely 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.

4. On 30 September 2019, the Company entered into the Equity Transfer Agreement with Beijing OriginWater Technology Co., Ltd.* (北京碧水源科技股份有限公司) and Mr. Lin Kehong, pursuant to which the Company has conditionally agreed to acquire, and Beijing OriginWater Technology Co., Ltd. and Mr. Lin Kehong have conditionally agreed to sell, the Sale Shares (i.e. the total issued share capital of Liaocheng Chuanglian Environmental Technology Co., Ltd.* (聊城市創聯環保科技有限公司) at a consideration of RMB40,300,000.

5. On 16 September 2019, Longhai City Construction Investment and Development Co., Ltd.* (龍海市城市建設投資開發有限公司), the Company, 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) entered into the joint venture agreement in relation to the establishment of the JV Company, namely 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.

6. On 5 September 2019, the Company together with Harbin North Environmental Protection Engineering Co., Ltd.* (哈爾濱北方環保工程有限公司) and Tianjin Municipal Engineering Design & Research Institute* (天津市市政工程設計研究院) were formally awarded the PPP project in relation to the new wastewater treatment facilities in Yunzhong, Xinzhou City, which is granted by Housing and Urban — Rural development Bureau* (住房和城鄉建設局) of Xinzhou City, Shanxi Province, the PRC by way of public tender. The total estimated investment of the project amounted to approximately RMB202,139,000.

7. At the beginning of 2019, the People's Government of Shuangcheng District proposed to optimise and rectify the PPP project, and the project optimisation and rectification plan required revision to the Original Joint Venture Agreement 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) on 15 June 2018. On 16 August 2019, the Company and Shuangcheng Tongda Water Supply and Drainage Co., Ltd. entered into the Joint Venture Agreement, which is the revised document of the Original Joint Venture Agreement. For any inconsistency between the Joint Venture Agreement and the Original Joint Venture Agreement, the Joint Venture Agreement shall prevail. Pursuant to the terms of the Joint Venture Agreement, the registered capital of the JV Company shall be adjusted from RMB240,000,000 to RMB202,102,650.

8. On 29 July 2019, the Company received a notice from Fujian Dongfei Environment Group Co., Ltd* (福建東飛環境集團有限公司), an entity as to which 40% equity is held by the Company, that Fujian Dongfei has been formally awarded the 2019 Yanping central district environment sanitation and cleaning market-oriented operation services procurement project in Nanping City, which was granted by Yanping District Urban Management Bureau, Nanping City, Fujian Province (福建省南平市延平區城市管理局), the PRC by way of public tender. The term of the project is from 2019 to 2025, and its total estimated investment amounted to approximately RMB301,951,347.6.

9. On 14 May 2019, the Company together with 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) received a letter of acceptance for being formally awarded the PPP project in relation to the rural wastewater collection and treatment system project in Longhai City, which is granted by Bureau of Housing and Urban Rural Construction of Longhai City, Fujian Province* (福建省龍海市住房和城鄉建設局), the PRC by way of public tender. The total estimated investment of the project amounted to approximately RMB1,184,001,000.

10. On 8 March 2019, Qinyang Yunhuai Water has received the Notice on Alteration of Qinyang Urban Water System Comprehensive Treatment Works PPP Project* (《關於沁陽市城區水系綜合治理工程 PPP 項目變更的通知》) issued by Qinyang Housing and Urban-Rural Development Bureau* (沁陽市住房和城鄉建設局) that the cooperation content of the PPP project in relation to Qinyang urban water comprehensive treatment works in Qinyang City was reduced from eight sub-projects to three sub-projects due to the adjustment to the implementation plan of the project. The total budget investment amount of the project was then reduced from RMB1,767,973,000 to RMB737,847,500 and the registered capital of Qinyang Yunhuai Water was adjusted from RMB442,003,000 to RMB184,467,500 accordingly. The Company, Qinbei Construction and YCIH No.5 Construction entered into the Supplemental Agreement afresh according to the Notices, pursuant to which, the parties agreed to amend their respective amount of capital contribution in accordance with their respective shareholdings as stipulated in the Joint Venture Agreement based on the adjusted total investment amount and registered capital.

11. On 29 January 2019, 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) entered into the joint venture agreement in relation to establishment of Luoding City Yunshui Environmental Protection Co., Ltd.* (羅定市雲水環保有限公司) as a joint venture company in Luoding (a county-level city), Yunfu City, Guangdong Province, the PRC with a total investment amount of RMB219,864,800.

12. On 25 January 2019, the Company entered into an investment agreement with 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), both being the existing shareholders, Mr. Wang Xinyan and Mr. Chenjian, both being the beneficial owners and, Fujian Dongfei Environment Group Co., Ltd* (福建東飛環境集團有限公司), as the target company, pursuant to which (i) the Company has conditionally agreed to acquire the 20% equity interests in Fujian Dongfei Environment Group Co., Ltd* at a consideration of RMB120,000,000; and (ii) the Company has conditionally agreed to subscribe for 20% equity interests in Fujian Dongfei Environment Group Co., Ltd* at a consideration of RMB200,000,000. On 8 February 2019, the parties to the investment agreement entered into a supplemental agreement to the effect that instead of the Chairman, the General Manager will be the legal representative who, subject to the approval of the Chairman, will be responsible for attending to the external affairs of the target company and representing the target company in execution of commercial and other corporate documents.

13. On 2 January 2019, the Company together with 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) were formally awarded the PPP project in relation to the phase II drainage reconstruction and expansion project in Hetian City, which is granted by Bureau of Housing and Urban Rural Construction of Hetian City, Xinjiang Uygur Autonomous Region* (新疆維吾爾自治區和田市住房和城鄉建設局), the PRC by way of public tender. The total estimated investment of the Project amounted to approximately RMB326,581,500.

Employees and remuneration policy

As at 31 December 2019, the Group employed 6,666 employees (31 December 2018: 6,207). As at 31 December 2019, staff cost was approximately RMB605.3 million (for the year ended 31 December 2018: RMB549.4 million). The Group will strive to ensure that the remuneration level of employees is in line with industry practices and prevailing market conditions, and remunerations of employees will be determined based on their performance. The remuneration package provided to employees also includes basic and floating salaries, discretionary bonus and staff benefits. The Group also provides external and internal training programmes for its employees.

The Group did not experience any significant labour disputes causing any material impact on its normal business operations.

Pledge of assets

As at 31 December 2019, assets pledged as security for borrowings included the Group's receivables under service concession arrangements, contract assets, right-of-use assets, land use rights, property, plant and equipment, intangible assets and the Company's investments in subsidiaries and a joint venture, with carrying value of RMB8,733.8 million (31 December 2018: approximately RMB5,278.6 million).

Foreign exchange risk

The Group principally operates in the PRC with most of the transactions being settled in RMB, which is the functional currency of most of the group entities. The Group also has certain subsidiaries in foreign operations. Foreign exchange risk arises from the recognised assets and liabilities and net investments in foreign operations. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through financing activities denominated in the relevant foreign currencies.

The group entities are exposed to foreign exchange risk of foreign currencies other than their functional currencies, primarily with respect to US$, EUR and HKD. The Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimising its net foreign currency position. Management considers the fluctuations in exchange rates between the functional currencies of respective group entities and Non-functional Currencies in which the group entities conduct business will not have significant effect on the Group's financial position and results of operations.

Contingent liabilities

As at 31 December 2019, the Group did not have any significant contingent liabilities.

For the year ended 31 December 2018

Business review

The Group is one of the leading integrated service providers in the urban environmental protection industry in China. The Group mainly adopts the BOT, BOO, TOT, TOO, BT, EPC, ROT, O&M and licensed operation models to provide customised and integrated turnkey solutions for water supply, wastewater treatment and solid waste treatment as well as system integration services of core technologies to customers. The Group's businesses are carried out in the PRC and the Southeast Asian countries, the Group's principal businesses comprise five major segments, namely, wastewater treatment, water supply, solid waste treatment, construction and sales of equipment and others.

As at 31 December 2018, the Group's water related projects (including the following wastewater treatment projects, water supply projects and all water related projects under other business segments) had the total daily treatment capacity of approximately 5,627,000 tonnes, representing an increase of approximately 19.4% as compared to the total daily treatment capacity of 4,712,700 tonnes as at 31 December 2017. As at 31 December 2018, the Group's solid waste treatment related projects (including the following solid waste treatment projects and all solid waste treatment related projects under other business segments) had the total annual treatment capacity of approximately 3,673,500 tonnes, representing an increase of approximately 66.1% as compared to the total annual capacity of 2,211,000 tonnes as at 31 December 2017.

Wastewater treatment projects

As at 31 December 2018, the Group had a total of 115 concession wastewater treatment projects under construction and in operation, including 7 BOO projects, 68 BOT projects, 2 TOO projects, 20 TOT projects, 1 ROT project and 17 municipal environment comprehensive treatment projects, with total daily treatment capacity of approximately 3,027,200 tonnes, representing an addition of 2 BOO projects, 2 BOT projects, 6 TOT projects, 1 ROT project and 7 municipal environment comprehensive treatment projects year-on-year, and an increase in the total daily wastewater treatment capacity of approximately 508,200 tonnes or a growth rate of approximately 20.2% as compared with the year ended 31 December 2017.

As at 31 December 2018, 83 concession projects with total daily treatment capacity of approximately 2,352,000 tonnes had commenced commercial operation, representing an addition of 6 TOT projects year-on-year which commenced commercial operation and an increase in total daily treatment capacity of approximately 168,000 tonnes compared with the year ended 31 December 2017. During the year ended 31 December 2018, the Group's effective wastewater treatment utilisation rate was approximately 75.51%, and the average unit charge of wastewater treatment was approximately RMB1.35 per tonne.

As at 31 December 2018, 32 concession projects with total daily treatment capacity of approximately 675,200 tonnes (including 17 municipal environment comprehensive treatment projects with total daily treatment capacity of approximately 294,700 tonnes) had not commenced commercial operation, representing an addition of 2 BOT projects, 2 BOO project, 1 ROT project and 7 municipal environment comprehensive treatment projects and an increase in total daily treatment capacity of approximately 340,200 tonnes as compared with 31 December 2017.

Water supply projects

As at 31 December 2018, the Group had a total of 62 concession water supply projects with total daily treatment capacity of approximately 2,221,000 tonnes under construction or in operation, including 15 BOO projects, 31 BOT projects, 11 TOT projects and 5 municipal environment comprehensive treatment projects, representing an addition of 7 BOT projects, 2 BOO projects and 3 municipal environment comprehensive treatment projects year-on-year, and an increase in total daily capacity of approximately 354,000 tonnes compared with 31 December 2017, representing a growth rate of approximately 19%.

As at 31 December 2018, 32 concession projects with total daily capacity of approximately 1,285,000 tonnes had commenced commercial operation. During the year ended 31 December 2018, the Group's effective water supply utilization rate was approximately 70.18%, and the average unit charge of water supply was approximately RMB2.39 per tonne.

As at 31 December 2018, 30 concession projects with total daily capacity of approximately 936,000 tonnes had not commenced commercial operation (including 5 municipal environment comprehensive treatment projects with total daily treatment capacity of approximately 332,000 tonnes), representing an addition of 7 BOT projects, 2 BOO projects and 3 municipal environment comprehensive treatment projects year-on-year and an increase in total daily capacity of approximately 354,000 tonnes.

Solid waste treatment projects

As at 31 December 2018, the Group had 19 solid waste treatment projects with total annual treatment capacity of 3,527,500 tonnes, 8 of which with an annual treatment capacity of 1,168,000 tonnes had commenced commercial operation and 11 of them with an annual treatment capacity of 2,359,500 tonnes was under construction (including 4 municipal environment comprehensive treatment projects with total annual treatment capacity of approximately 1,243,000 tonnes). As compared to 31 December 2017, 7 additional solid waste treatment projects were under construction and the total annual treatment capacity increased by 1,480,500 tonnes. During the year ended 31 December 2018, the Group's effective solid waste treatment utilisation rate was approximately 87.6%.

Construction and sales of equipment

The Group's construction and sales of equipment segment comprises BT projects, EPC projects and sales of equipment. As at 31 December 2018, the Group had a total of 11 BT projects, which were either under construction and/or completed, among which income of 10 BT projects were recognised during the year ended 31 December 2018. During the year ended 31 December 2018, the Group had a total of 10 EPC projects.

The Group engages in the production, sales and installation of equipment for wastewater treatment, water supply, solid waste treatment and other infrastructure facilities. The major category of water related equipment in the Group's production is membrane. Most of the membrane products are produced by the own plant of the Group.

Others

During the year ended 31 December 2018, the Group also undertook O&M projects for wastewater treatment, water supply and solid waste treatment facilities owned by third parties as well as provision of technical and consultancy services in relation to environmental protection. As at 31 December 2018, the Group had 32 O&M projects, including 30 wastewater treatment projects with total daily treatment capacity of approximately 373,800 tonnes (including the capacity of wastewater treatment projects adopting O&M model within municipal environment comprehensive treatment projects), 1 water supply project with daily capacity of approximately 5,000 tonnes and 1 solid waste treatment project with annual capacity of approximately 146,000 tonnes.

Financial review

Revenue of the Group increased from approximately RMB5,142.3 million for the year ended 31 December 2017 to approximately RMB6,255.6 million for the year ended 31 December 2018, representing an increase of approximately 21.7%. In respect of the business segments of the Group, revenue from wastewater treatment tremendously increased from approximately RMB1,683.5 million for the year ended 31 December 2017 to approximately RMB3,295.0 million for the year ended 31 December 2018. Revenue from water supply decreased by approximately 1.9% from approximately RMB1,194.2 million for the year ended 31 December 2017 to approximately RMB1,171.8 million for the year ended 31 December 2018. Revenue from solid waste treatment increased by approximately 30.6% from RMB573.5 million for the year ended 31 December 2017 to approximately RMB749.0 million for the year ended 31 December 2018. Revenue from construction and sales of equipment decreased by approximately 17.7% from approximately RMB1,175.8 million for the year ended 31 December 2017 to approximately RMB967.9 million for the year ended 31 December 2018. Revenue from other business decreased from approximately RMB515.3 million for the year ended 31 December 2017 to approximately RMB71.9 million for the year ended 31 December 2018.

For the year ended 31 December 2018, the Group's audited profit attributable to ordinary shareholders of the Company amounted to approximately RMB397.8 million (for the year ended 31 December 2017: approximately RMB422.8 million).

Liquidity and financial resources

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operations, borrowings and perpetual capital instruments from financial institutions.

As at 31 December 2018, the cash and cash equivalents of the Group amounted to approximately RMB2,214,352,000 (2017: RMB2,896,927,000), which were denominated in the following currencies:

	As at 31 December	
	2018	**2017**
	RMB'000	*RMB'000*
— RMB	2,089,479	2,607,303
— THB	60,966	35,126
— USD	49,584	207,020
— IDR	10,094	7,189
— HKD	2,949	40,289
— SGD	1,280	—
	2,214,352	2,896,927

As at 31 December 2018, the Group had borrowings of approximately RMB16,934.5 million (31 December 2017: approximately RMB13,788.0 million). As at 31 December 2018, the Group has fixed rate borrowings amounting to approximately RMB11,685 million (31 December 2017: RMB9,919 million). The Group's borrowings were denominated as follows:

	As at 31 December	
	2018	**2017**
	RMB'000	*RMB'000*
— RMB	13,644,864	10,978,059
— USD	3,175,251	2,785,218
— THB	92,207	—
— EUR	22,204	24,719
	16,934,526	13,787,996

As at 31 December 2018, the Group's borrowings were repayable as follows:

	As at 31 December	
	2018	**2017**
	RMB'000	*RMB'000*
Within one year	5,755,534	4,438,574
One to two years	3,365,440	2,624,031
Two to five years	5,692,614	4,987,444
Over five years	2,120,938	1,737,947
	16,934,526	13,787,996

Significant investments and material acquisitions and disposals

1. On 10 December 2018, the Company together with Yunnan Construction and Investment Holding Group Co., Ltd. were formally awarded the PPP project in relation to the rural domestic wastewater treatment facilities in Yanliang District, which is granted by Yanliang County Water Authority* (閻良縣水務局) authorized by the People's Government of Yanliang District, Xi'an City, Shaanxi Province, the PRC by way of public tender. The total estimated investment of the Project amounted to approximately RMB385,973,700.

2. On 3 December 2018, the Company together with 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) were formally awarded the PPP project in relation to construction of wastewater treatment facilities in the entire Luoding City, which was granted by Environmental Protection Bureau of Luoding City, Guangdong Province*(廣東省羅定市環境保護局), the PRC by way of public tender. The total estimated investment of the Project amounted to approximately RMB732,882,600.

3. On 21 November 2018, the Company entered into joint venture agreements with Maoming Jianjiang River Basin Water Conservancy and Hydropower Construction and Installation Engineering Co., Ltd.* (茂名市鑒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 establishment of joint venture company I and joint venture company II in Xinyi City, Maoming City, Guangdong Province, the PRC, respectively. The total investment in joint venture company I: Xinyi City Yunshui Environmental Protection Co., Ltd.* (信宜市雲水環保有限公司) was RMB168,750,000 and the total investment in joint venture company II: Xinyi City Yunshui Water Co., Ltd.* (信宜市雲水水務有限公司) was RMB192,890,000.

4. On 2 November 2018, the Company together with Guangzhou Engineering Contractor Group Co., Ltd.* (廣州工程總承包集團有限公司) were formally awarded the PPP project in relation to the rural domestic wastewater treatment facilities in three towns including Yamen town, which is granted by Agriculture and Forestry Bureau of Xinhui District, Jiangmen City, Guangdong Province* (廣東省江門市新會區農林局), the PRC by way of public tender. The total estimated investment of the Project amounted to approximately RMB149,000,000.

5. On 18 October 2018, 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) entered into the shareholders' agreement in relation to establishment of Xinjiang Yunrun Recycling Economy Co., Ltd.* (新疆雲潤循環經濟有限公司) as a joint venture company in Ganquanpu Economic Development Zone in Urumqi City, Xinjiang Uygur Autonomous Region, the PRC with a total investment amount of RMB132,917,600.

6. On 12 October 2018, the Company, Funan Huai'an Water Co., Ltd.* (阜南縣淮岸水務有限公司), Yunnan Railway General Corporation* (雲南省鐵路總公司) and Fuyang Urban and Rural Planning and Design Institute* (阜陽市城鄉規劃設計研究院) entered into a joint venture agreement in relation to 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) as a joint venture company in Funan County, Fuyang City, Anhui Province, the PRC with a total investment amount of RMB180,000,000.

7. On 27 September 2018, the Company together with Yunnan Railway General Corporation* (雲南省鐵路總公司) and Fuyang Urban and Rural Planning and Design Institute* (阜陽市城鄉規劃設計研究院) were formally awarded the PPP project in relation to the domestic wastewater treatment for the government locations of townships and towns in Funan County, which is granted by Funan County Housing and Urban-Rural Construction Bureau* (阜南縣住房和城鄉建設局) by way of public tender and is authorized by the People's Government of Fuyang City (阜陽市人民政府), Anhui Province, the PRC. The total estimated investment amount of the Project is approximately RMB929,223,400.

8. On 19 September 2018, the PPP project in relation to the whole package of water purification facilities of Xinyi City, which is granted by Xinyi City Housing and Urban-Rural Construction Bureau* (信宜市住房和城鄉規劃建設局) of Guangdong Province, the PRC, was been formally awarded to the Company together with Maoming Jianjiang River Basin Water Conservancy and Hydropower Construction and Installation Engineering Co., Ltd.* (茂名市鑒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). The total estimated investment amount of the Project is approximately RMB1,053,690,000.

9. On 6 September 2018, the Company and Guangzhou Engineering Contractor Group Co., Ltd.* (廣州工程總承包集團有限公司) entered into a joint venture agreement in relation to the establishment of Jiexi Yunshuiqing Environmental Protection Co., Ltd.* (揭西縣雲水清環保有限公司) as a joint venture company in Jiexi County, Jieyang City, Guangdong Province, the PRC with a total investment amount of RMB176,000,000.

10. On 16 August 2018, the PPP project in relation to the integrated treatment of solid wastes for the Venous Industrial Park in Ganquanpu Economic Development Zone in Urumqi, which is granted by Management Center for Construction and Development of Service Industries of Ganquanpu Industrial Zone in Urumqi by way of public tender and is authorized by the People's Government of Urumqi City, Xinjiang Uygur Autonomous Region (新疆維吾爾自治區烏魯木齊市人民政府), the PRC, was formally awarded to the Company. The total estimated construction investment amount of the Project is approximately RMB398,529,000.

11. On 24 July 2018, the PPP project in relation to the whole package of domestic wastewater treatment facilities in Jiexi County, which is granted by Jieyang City Jiexi County Housing and Urban-Rural Construction Bureau* (揭陽市揭西縣住房和城鄉建設局) by way of public tender and is authorized by the People's Government of Jieyang City, Guangdong Province (廣東省揭陽市人民政府), the PRC, was formally awarded to the Company together with Guangzhou Engineering Contractor Group Co., Ltd.* (廣州工程總承包集團有限公司). The total estimated investment amount of the Project is approximately RMB726,709,300.

12. On 12 June 2018, the Company, Wuzhi County Investment Group Co., Ltd.* (武陟縣投資集團有限公司) and YCIH No.5 Construction Co., Ltd.* (雲南建投第五建設有限公司) entered into a joint venture agreement in relation to establishment of Wuzhi Yunshui Ecological Development Co., Ltd.* (武陟雲水生態發展有限公司) as a joint venture company in Wuzhi County, Jiaozuo City, Henan Province, the PRC with a total investment amount of RMB260,997,600.

13. On 25 May 2018, the PPP project in relation to the wastewater treatment system construction project in Xianmei Area, Rongcheng District, Jieyang City, Guangdong Province, the PRC, which is granted by Jieyang City Rongcheng District Construction Bureau* (揭陽市榕城區建設局) by way of public tender and is authorized by the People's Government of Jieyang City, Guangdong Province (廣東省揭陽市人民政府), was formally awarded to the Company together with Guangzhou Engineering Contractor Group Co., Ltd.* (廣州工程總承包集團有限公司) and Anhui Urban Construction Design Institute Corp., Ltd.* (安徽省城建設計研究總院股份有限公司). The total estimated investment amount of the Project is approximately RMB287,892,900.

14. On 4 May 2018, the Company, Guangdong Yixin Great Wall Construction Group Co., Ltd.* (廣東一新長城建築集團有限公司) and Zhongdu Engineering Design Co., Ltd.* (中都工程設計有限公司) entered into a joint venture agreement in relation to establishment of Xuwen Yunshui Environmental Protection Management Co., Ltd.* (徐聞縣雲水環保管理有限公司) as a joint venture company in Xuwen County, Zhanjiang City, Guangdong Province, the PRC with a total investment amount of RMB380,000,000.

15. On 3 May 2018, the PPP project in relation to the integration of water supply and drainage in Shuangcheng District, Harbin City, Heilongjiang Province, the PRC, which is granted by Harbin Shuangcheng Water Supply and Drainage Group Co., Ltd.* (哈爾濱市雙城區供排水集團公司) by way of public tender and is authorized by the People's Government of Harbin City, Heilongjiang Province (黑龍江省哈爾濱市人民政府), has been formally awarded to the Company together with Heilongjiang Shuangxing Municipal Engineering Co., Ltd.* (黑龍江雙興市政工程有限責任公司). The total estimated investment amount of the Project is approximately RMB1,260,669,800.

16. On 4 April 2018, the PPP project in relation to Wuzhi County urban water transformation and upgrading works in Wuzhi County, Jiaozuo City, Henan Province, the PRC, which is granted by Wuzhi County Water Resources Bureau* (武陟縣水利局) by way of public tender and is authorized by the People's Government of Wuzhi County (武陟縣人民政府), was formally awarded to the Company together with YCIH No.5 Construction Co., Ltd.* (雲南建投第五建設有限公司). The total estimated investment amount of the Project is approximately RMB1,103,097,800.

17. On 21 March 2018, the Company together with Guangdong Yixin Great Wall Construction Group Co., Ltd.* (廣東一新長城建築集團有限公司) and Zhongdu Engineering Design Co., Ltd.* (中都工程設計有限公司) were formally awarded the PPP project in relation to the construction of wastewater treatment facilities in the entire Xu Wen County in Zhanjiang City, Guangdong Province, the PRC through public tender by the Housing and Urban-Rural Development Bureau of Xu Wen County* (徐聞縣住房和城鄉建設局) authorized by the People's Government of Xu Wen County, Zhanjiang City, Guangdong Province, the PRC. The total estimated investment amount of the project is approximately RMB1,249,740,000.

18. On 13 February 2018, Yunnan Water (Hong Kong) Company Limited, a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with Mr. Wang Zhi in relation to acquisition of the 35% equity interests in Future International Group Co., Limited at a consideration of RMB200,000,000.

19. On 24 January 2018, the Company entered into a joint venture agreement with Qinyang Qinbei Construction Investment Co., Ltd.* (沁陽市沁北建設投資有限公司) ("**Qinbei Construction Investment**") and YCIH No.5 Construction Co., Ltd.* (雲南建投第五建設有限公司) ("**YCIH No.5 Construction**") in relation to the establishment of Qinyang Yunhuai Water Co., Ltd. Ltd.* (沁陽市雲懷水務有限公司) ("**Qinyang Yunhuai Water**") as a joint venture company in Qinyang, Henan Province, the PRC, with a total investment amount of RMB442,003,000.

20. On 11 January 2018, the Company together with YCIH No.5 Construction were formally awarded a PPP project in relation to Qinyang urban water comprehensive treatment works in Qinyang City, Henan Province, the PRC through public tender by Qinyang Housing and Urban-Rural Development Bureau* (沁陽市住房和城鄉建設局) authorised by the People's Government of Qinyang City. The total estimated investment amount of the Project is approximately RMB1,767,973,000.

Employees and remuneration policy

As at 31 December 2018, the Group employed 6,207 employees (31 December 2017: 5,302). During the year ended 31 December 2018, staff cost was approximately RMB549.4 million (for the year ended 31 December 2017: RMB411.4 million). The Group will strive to ensure that the remuneration level of employees is in line with industry practices and prevailing market conditions, and remunerations of employees will be determined based on their performance. The remuneration package provided to employees also includes basic and floating salaries, discretionary bonus and staff benefits. The Group also provides external and internal training programmes for its employees.

The Group did not experience any significant labour disputes causing any material impact on its normal business operations.

Pledge of assets

As at 31 December 2018, the Group had borrowings of approximately RMB16,934.5 million of which approximately RMB5,232.2 million secured by the Group's shares of subsidiaries, property, plant and equipment, intangible assets, land use right, rights of charges from concession projects of water supply and wastewater treatment and BT projects of approximately RMB5,278.6 million.

Foreign exchange risk

The Group principally operates in the PRC with most of the transactions being settled in RMB, which is the functional currency of most of the group entities. The Group also has certain subsidiaries in foreign operations. Foreign exchange risk arises from the recognised assets and liabilities and net investments in foreign operations. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through financing activities denominated in the relevant foreign currencies.

The group entities are exposed to foreign exchange risk of foreign currencies other than their functional currencies, primarily with respect to US$, EUR and HKD. The Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimizing its net foreign currency position. Management considers the fluctuations in exchange rates between the functional currencies of respective group entities and Non-functional Currencies in which the group entities conducts business will not have significant effect on the Group's financial position and results of operations.

Contingent liabilities

As at 31 December 2018, the Group did not have any significant contingent liabilities.

UNAUDITED FINANCIAL INFORMATION OF THE TARGET GROUP

Set out below are the unaudited consolidated balance sheets of Yunnan Yunshui Construction & Engineering Co., Ltd. (the "**Target Company**") and its subsidiaries (collectively referred to as the "**Target Group**") as at 31 December 2018, 2019 and 2020 and the related unaudited consolidated statements of profit or loss and other comprehensive income, unaudited consolidated statements of changes in equity and unaudited consolidated statements of cash flows for each of the years ended 31 December 2018, 2019 and 2020, and explanatory notes (collectively referred to as the "**Financial Information**"). The Financial Information has been prepared by the Directors of the Company on the basis set out in note 2 to the Financial Information and in accordance with paragraph 14.68(2)(a)(i)(A) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The Financial Information is prepared by the Directors solely for the purpose of inclusion in this Circular in connection with the Disposal (as defined in note 1 to the unaudited consolidated financial information of the Target Group). Moore Stephens CPA Limited was engaged to review the Financial Information of the Target Group set out in pages II-2 to II-10 in accordance with Hong Kong Standard on Review Engagements 2400 (Revised), "Engagements to Review Historical Financial Statements" and with reference to Practice Note 750, "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal", issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable the auditors to obtain assurance that the auditors would become aware of all significant matters that might be identified in an audit. Accordingly, the auditors do not express an audit opinion.

Based on their review, nothing has come to their attention that causes them to believe that the Financial Information of the Target Group for the relevant periods is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 below.

Unaudited Consolidated Statements of Profit or Loss and Other Comprehensive Income
For the years ended 31 December 2018, 2019 and 2020

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	1,718,340	1,080,527	923,967
Cost of sales	(1,260,717)	(736,395)	(651,530)
Gross profit	457,623	344,132	272,437
Other income	218	232	59
Other losses — net	(190)	—	(2)
Selling expenses	(1,158)	(1,306)	(963)
Administrative expenses	(101,269)	(77,429)	(29,105)
Impairment losses on financial assets	(39,010)	7,341	(28,256)
Operating profit	316,214	272,970	214,170
Finance income	307	873	3,822
Finance expenses	(50,278)	(32,767)	(44,570)
Finance costs — net	(49,971)	(31,894)	(40,748)
Profit before income tax	266,243	241,076	173,422
Income tax expenses	(62,699)	(47,815)	(33,470)
Profit and total comprehensive income for the year	203,544	193,261	139,952

Unaudited Consolidated Balance Sheets
At 31 December 2018, 2019 and 2020

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	110,317	104,336	97,765
Intangible assets	25,835	25,926	24,299
Financial asset at fair value through other comprehensive income	762	762	762
Deferred income tax assets	10,553	7,340	13,764
	147,467	138,364	136,590
Current assets			
Inventories	30,798	33,028	24,494
Trade and other receivables	3,209,763	3,830,161	4,463,412
Prepayments	97,949	24,621	23,003
Cash and cash equivalents	43,581	50,618	505,661
	3,382,091	3,938,428	5,016,570
Total assets	3,529,558	4,076,792	5,153,160

Unaudited Consolidated Balance Sheets (Continued)
At 31 December 2018, 2019 and 2020

	As at 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
EQUITY			
Share capital	560,000	560,000	694,574
Other reserves	108,106	127,432	806,853
Retained earnings	265,182	189,117	2,761
Total equity	933,288	876,549	1,504,188
LIABILITIES			
Non-current liabilities			
Borrowings	—	—	200,000
Trade and other payables	1,058,978	1,186,478	1,571,901
Deferred tax liabilities	1,384	1,678	1,836
	1,060,362	1,188,156	1,773,737
Current liabilities			
Contract liabilities	40,905	46,791	20,635
Borrowings	340,000	480,000	1,160,000
Trade and other payables	1,094,825	1,451,880	659,402
Current income tax liabilities	60,178	33,416	35,198
	1,535,908	2,012,087	1,875,235
Total liabilities	2,596,270	3,200,243	3,648,972
Total equity and liabilities	3,529,558	4,076,792	5,153,160

Unaudited Consolidated Statements of Changes in Equity
For the years ended 31 December 2018, 2019 and 2020

	Share capital *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2018	60,000	87,752	211,992	359,744
Total comprehensive income for the year				
Profit for the year	—	—	203,544	203,544
Transactions with owners in their capacity as owners				
Share subscription	500,000	—	—	500,000
Dividends	—	—	(130,000)	(130,000)
Withdrawal of surplus reserve	—	20,354	(20,354)	—
Balance at 31 December 2018	560,000	108,106	265,182	933,288

Unaudited Consolidated Statements of Changes in Equity (Continued)
For the years ended 31 December 2018, 2019 and 2020

	Share capital *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2019	560,000	108,106	265,182	933,288
Total comprehensive income for the year				
Profit for the year	—	—	193,261	193,261
Transactions with owners in their capacity as owners				
Dividends	—	—	(250,000)	(250,000)
Withdrawal of surplus reserve	—	19,326	(19,326)	—
Balance at 31 December 2019	560,000	127,432	189,117	876,549

Unaudited Consolidated Statements of Changes in Equity (Continued)
For the years ended 31 December 2018, 2019 and 2020

	Share capital	Other reserves	Retained earnings	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2020	560,000	127,432	189,117	876,549
Total comprehensive income for the year				
Profit for the year	—	—	139,952	139,952
Transactions with owners in their capacity as owners				
Share subscription	134,574	665,426	—	800,000
Dividends	—	—	(312,313)	(312,313)
Withdrawal of surplus reserve	—	13,995	(13,995)	—
Balance at 31 December 2020	694,574	806,853	2,761	1,504,188

Unaudited Consolidated Statements of Cash Flows
For the years ended 31 December 2018, 2019 and 2020

	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Cash flows from operating activities			
Cash generated from/(used in) operations	162,270	(28,684)	(1,146,033)
Income tax paid	(58,571)	(71,071)	(37,954)
Interest received	307	874	3,823
Net cash inflow/(outflow) from operating activities	104,006	(98,881)	(1,180,164)
Cash flows from investing activities			
Payments for property, plant and equipment, right-of-use assets, land use rights and other intangible assets	(863)	(1,315)	(223)
Proceed from disposal of property, plant and equipment and intangible assets	172	—	—
Net cash outflow from investing activities	(691)	(1,315)	(223)
Cash flows from financing activities			
Proceeds from borrowings	300,000	480,000	1,360,000
Repayments of borrowings	(380,000)	(340,000)	(480,000)
Proceed from share subscription	—	—	800,000
Interest paid	(50,278)	(32,767)	(44,570)
Net cash (outflow)/inflow from financing activities	(130,278)	107,233	1,635,430
Net (decrease)/increase in cash and cash equivalents	(26,963)	7,037	455,043
Cash and cash equivalents at beginning of the financial year	70,544	43,581	50,618
Cash and cash equivalents at end of year	43,581	50,618	505,661

Notes to the Unaudited Consolidated Financial Information of the Target Group

For the years ended 31 December 2018, 2019 and 2020

1. GENERAL INFORMATION

Yunnan Yunshui Construction & Engineering Co., Ltd. (the "**Target Company**") was incorporated in Yunnan Province of the Peoples Republic of China (the "**PRC**") on 2 February 2010. The Target Company's immediate holding company is Yunnan Water Investment Co., Limited (the "**Company**"), a joint stock limited liability company with its H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 27 May 2015. The Company is a State-owned enterprise and it holds 80.625% of the Target Company's equity interest. Yunnan Asset Management Co., Ltd. ("**YAM**") holds the remaining 19.375% of the Target Company's equity interest. The Target Company and its subsidiaries (collectively referred to as the "**Target Group**") are principally engaged in municipal public works, environmental protection engineering, engineering technology consulting, membrane products, membrane components and related equipment manufacturing.

On 31 December 2020, the Company entered into the Second Capital Injection Agreement and the Supplemental Agreement (as defined in the Company's circular dated 25 June 2021) with YAM and the Target Company, pursuant to which, (i) YAM has agreed to further subscribe for the subscription shares (representing approximately 23.958% of the registered capital of the Target Company upon completion of such capital increase) at the consideration of RMB500,000,000 (comprising newly increased registered capital of approximately RMB218,830,700 and capital reserve of approximately RMB281,169,300), and (ii) as part of the transaction, the Company has agreed to reduce its paid-in capital contribution in the Target Company by RMB42,404,100 from RMB560,000,000 to RMB517,595,900 and convert the sum of RMB42,404,100 from registered capital to capital reserve of the Target Company. Upon completion of the capital increase, the Group's equity interest in the Target Company will be diluted from approximately 80.625% to approximately 56.667%. As such, the capital increase pursuant to the Second Capital Injection Agreement and the Supplemental Agreement will constitute a deemed disposal by the Company of approximately 23.958% equity interest in the Target Company (the "**Disposal**" or "**Deemed Disposal**"). As at 31 December 2020 and up to the date of this circular, the change of registered capital of the Target Company in the Second Capital Injection Agreement and the Supplemental Agreement has not been temporarily approved and effective. The effect of the Second Capital Injection Agreement and the Supplemental Agreement is subject to the approval of Independent Shareholders.

The particulars of the subsidiary of the Target Company as at 31 December 2018, 2019 and 2020 are set out below:

Name of subsidiary	Place of establishment/ incorporation	Particulars of paid up capital	Target Group's effective interest	Principal activities
Yunnan OriginWater Membrane Technology Co., Ltd.	PRC	RMB55,614,800	100%	Environmental protection equipment sales in the PRC

Upon completion of the Deemed Disposal, the Target Company will remain as a non wholly-owned subsidiary of the Company. As such, the Target Company and its operating results, assets and liabilities will continue to be consolidated in the financial statements of the Group.

The Financial Information of the Target Group for the years ended 31 December 2018, 2019 and 2020 (the "**Relevant Periods**") is presented in Renminbi. All values are rounded to the nearest thousand except when otherwise indicated.

2. BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

The Financial Information of the Target Group comprising the unaudited consolidated balance sheets of the Target Group as at 31 December 2018, 2019 and 2020 and the unaudited consolidated statements of profit or loss and other comprehensive income, unaudited consolidated statements of changes in equity and unaudited consolidated statements of cash flows for the years ended 31 December 2018, 2019 and 2020, and explanatory notes (the "**Financial Information**") has been prepared in accordance with paragraph 14.68(2)(a)(i) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), and solely for the purpose of inclusion in this circular to be issued by the Company in connection with the Disposal.

The Financial Information has been prepared in accordance with the same accounting policies as those adopted by the Group in preparation of the consolidated financial statements of the Group for those respective years. The consolidated financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

The Financial Information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 (Revised), Presentation of Financial Statements, or an interim financial report as defined in Hong Kong Accounting Standard 34, Interim Financial Reporting, issued by the HKICPA and should be read in connection with the relevant published annual reports or interim reports of the Company for the Relevant Periods.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

Introduction to the unaudited pro forma financial information

The following is the unaudited pro forma financial information of Yunnan Water Investment Co., Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") upon the completion of the deemed disposal of 23.958% equity interest of Yunnan Yunshui Construction & Engineering Co., Ltd. (the "**Target Company**") (the "**Disposal**") (the "**Remaining Group**"), comprising the unaudited pro forma consolidated balance sheet as at 31 December 2020, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2020 and related notes, which have been prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The unaudited pro forma financial information of the Remaining Group has been prepared to illustrate the effects of the completed Disposal on the financial position of the Group as at 31 December 2020 as if the Disposal had been completed on 31 December 2020, and the Group's financial performance and cash flows for the year ended 31 December 2020 as if both the Disposal had been completed on 1 January 2020. Details of the Disposal are set out in the "**Letter from the Board**" contained in the circular dated 25 June 2021 (the "**Circular**") issued by the Company.

The unaudited pro forma financial information has been prepared for illustrative purposes only and is based on certain assumptions, estimates, uncertainties and other currently available information. Accordingly, and because of its hypothetical nature, the unaudited pro forma financial information of the Remaining Group may not give a true picture of the financial position, financial performance or cash flows of the Remaining Group following the completion of the Disposal. Further, the unaudited pro forma financial information of the Remaining Group does not purport to predict the Group's future financial position, financial performance or cash flows.

The unaudited pro forma financial information of the Remaining Group has been prepared based upon the consolidated balance sheet of the Group as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows of the Group for the year ended 31 December 2020, which have been extracted from the published annual report of the Group for the year ended 31 December 2020 after taking pro forma adjustments as summarised in the accompanying notes that are directly attributable to the Disposal, factually supportable and clearly identified as to those have no continuing effect on the Group.

1. Unaudited pro forma consolidated balance sheet of the Remaining Group as at 31 December 2020

	The Group	Pro forma adjustment	The Remaining Group
	RMB'000	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	
ASSETS			
Non-current assets			
Property, plant and equipment	4,081,849		4,081,849
Investment properties	23,960		23,960
Right-of-use assets	336,517		336,517
Receivables under service concession arrangements	5,235,494		5,235,494
Contract assets	10,959,833		10,959,833
Intangible assets	12,888,550		12,888,550
Investments accounted for using the equity method	852,784		852,784
Financial asset at fair value through other comprehensive income	4,675		4,675
Trade and other receivables	422,564		422,564
Prepayments	1,168,930		1,168,930
Deferred income tax assets	701,437		701,437
	36,676,593		36,676,593
Current assets			
Receivables under service concession arrangements	65,877		65,877
Inventories	108,337		108,337
Contract assets	565,470		565,470
Trade and other receivables	7,837,887		7,837,887
Prepayments	175,461		175,461
Restricted cash	125,501		125,501
Cash and cash equivalents	1,697,688		1,697,688
	10,576,221		10,576,221
Total assets	47,252,814		47,252,814

1. Unaudited pro forma consolidated balance sheet of the Remaining Group as at 31 December 2020 (Continued)

	The Group	Pro forma adjustment	The Remaining Group
	RMB'000	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	
EQUITY			
Equity attributable to ordinary shareholders of the Company			
Share capital	1,193,213		1,193,213
Other reserves	2,800,727	20,734	2,821,461
Retained earnings	1,181,421	—	1,181,421
	5,175,361	20,734	5,196,095
Perpetual capital instruments	500,000		500,000
Non-controlling interests	1,932,201	(20,734)	1,911,467
Total equity	7,607,562	—	7,607,562
LIABILITIES			
Non-current liabilities			
Lease liabilities	35,776		35,776
Borrowings	17,865,921		17,865,921
Trade and other payables	5,906,360		5,906,360
Deferred income	709,768		709,768
Deferred income tax liabilities	1,277,470		1,277,470
Provision	497,236		497,236
	26,292,531		26,292,531
Current liabilities			
Contract liabilities	88,151		88,151
Lease liabilities	13,258		13,258
Borrowings	9,675,894		9,675,894
Trade and other payables	3,129,990		3,129,990
Current income tax liabilities	445,428		445,428
	13,352,721		13,352,721
Total liabilities	39,645,252		39,645,252
Total equity and liabilities	47,252,814		47,252,814

2. Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Remaining Group for the year ended 31 December 2020

	The Group	Pro forma adjustment	The Remaining Group
	RMB'000	*RMB'000*	*RMB'000*
	Note 1	*Note 3*	
Revenue	8,396,630		8,396,630
Cost of sales	(6,300,498)		(6,300,498)
Gross profit	2,096,132		2,096,132
Other income	86,668		86,668
Other gains/(losses) — net	48,810		48,810
Selling expenses	(42,445)		(42,445)
Administrative expenses	(441,692)		(441,692)
Impairment losses on financial assets	(70,156)		(70,156)
Operating profit	1,677,317		1,677,317
Finance income	28,995		28,995
Finance expenses	(1,282,258)		(1,282,258)
Finance costs — net	(1,253,263)		(1,253,263)
Share of profit of investments accounted for using the equity method	78,570		78,570
Profit before income tax	502,624		502,624
Income tax expenses	(161,313)		(161,313)
Profit for the year	341,311		341,311
Other comprehensive income			
Items that may be reclassified to profit or loss			
— Exchange differences on translation of foreign operations	12,009		12,009
Total comprehensive income for the year, net of tax	353,320		353,320

2. Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Remaining Group for the year ended 31 December 2020 (Continued)

	The Group	Pro forma adjustment	The Remaining Group
	RMB'000	*RMB'000*	*RMB'000*
	Note 1	*Note 3*	
Profit attributable to:			
— Ordinary shareholders of the Company	223,095	(33,530)	189,565
— Holders of perpetual capital instruments	117,640		117,640
— Non-controlling interests	576	33,530	34,106
	341,311	—	341,311
Total comprehensive income attributable to:			
— Ordinary shareholders of the Company	235,104	(33,530)	201,574
— Holders of perpetual capital instruments	117,640		117,640
— Non-controlling interests	576	33,530	34,106
	353,320	—	353,320

3. Unaudited pro forma consolidated statement of cash flows of the Remaining Group for the year ended 31 December 2020

	The Group *RMB'000* *Note 1*	The Remaining Group *RMB'000*
Cash flows from operating activities		
Profit before income tax	502,624	502,624
Adjustments for:		
— Impairment losses on financial assets	70,156	70,156
— Depreciation of investment properties	845	845
— Amortisation of intangible assets	373,950	373,950
— Depreciation of property, plant and equipment	191,652	191,652
— Depreciation of right-of-use assets	24,430	24,430
— Share of profit of investments accounted for using the equity method	(78,570)	(78,570)
— Other gains net	(48,810)	(48,810)
— Finance costs net	1,258,992	1,258,992
Change in working capital:		
— Inventories	(4,851)	(4,851)
— Contract assets	(2,630,702)	(2,630,702)
— Trade and other receivables and receivables under concession arrangements	(2,667,471)	(2,667,471)
— Prepayments	(264,092)	(264,092)
— Trade and other payables	(318,061)	(318,061)
— Contract liabilities	(18,525)	(18,525)
— Deferred income	8,048	8,048
Cash used in operations	(3,600,385)	(3,600,385)
Income tax paid	(142,811)	(142,811)
Interest paid	(1,396,773)	(1,396,773)
Net cash outflow from operating activities	(5,139,969)	(5,139,969)

3. Unaudited pro forma consolidated statement of cash flows of the Remaining Group for the year ended 31 December 2020 (Continued)

	The Group *RMB'000* *Note 1*	**The Remaining Group** *RMB'000*
Cash flows from investing activities		
Payments for property, plant and equipment, right-of-use assets, land use rights and other intangible assets	(518,651)	(518,651)
Investments in a joint venture and associates	(40,000)	(40,000)
Proceeds from disposal of a joint venture	375,200	375,200
Others — net	3,691	3,691
Net cash outflow from investing activities	(179,760)	(179,760)
Cash flows from financing activities		
Proceeds from borrowings	19,444,205	19,444,205
Repayments of borrowings	(13,222,037)	(13,222,037)
Proceeds from issuance of perpetual capital instruments	500,000	500,000
Repayments of perpetual capital instruments	(2,610,000)	(2,610,000)
Distributions paid to holders of perpetual capital instruments	(159,640)	(159,640)
Dividends paid	(178,982)	(178,982)
Dividends paid to the non-controlling interests	(27,422)	(27,422)
Capital injections by non-controlling interests	857,395	857,395
Payments for acquisition of additional interests in subsidiaries	(36,962)	(36,962)
Others — net	(17,427)	(17,427)
Net cash inflow from financing activities	4,549,130	4,549,130
Net decrease in cash and cash equivalents	(770,599)	(770,599)
Cash and cash equivalents at beginning of the financial year	2,468,435	2,468,435
Exchange losses on cash and cash equivalents	(148)	(148)
Cash and cash equivalents at end of year	1,697,688	1,697,688

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

1. The amounts are extracted from the published annual report of the Group as at and for the year ended 31 December 2020.

2. With reference to the announcement of the Company dated 31 December 2020, Yunnan Asset Management Co., Ltd.* (雲南省資產管理有限公司) ("**YAM**"), a limited liability company incorporated in the People's Republic of China (the "**PRC**") and a wholly-owned subsidiary of Yunnan Province Investment Holding Group Co., Ltd.* (雲南省投資控股集團有限公司), a limited liability company incorporated in the PRC which is 90% owned by State-owned Assets Supervision and Administration Commission of the State Council of the PRC of Yunnan Province has agreed to subscribe for approximately 23.958% of the registered capital of the Target Company at the consideration of RMB500,000,000 (comprising newly increased registered capital of approximately RMB218,830,700 and capital reserve of approximately RMB281,169,300), and as part of the transaction, the Company has agreed to reduce its paid-in capital contribution in the Target Company by RMB42,404,100 from RMB560,000,000 to RMB517,595,900 and convert the sum of RMB42,404,100 from registered capital to capital reserve of the Target Company. Upon completion of the capital increase, the Group's equity interest in the Target Company will be diluted from approximately 80.625% to approximately 56.667%. As such, the capital increase pursuant to the Second Capital Injection Agreement and the Supplemental Agreement (as defined in the Company's circular dated 25 June 2021) constitute a deemed disposal by the Company of approximately 23.958% equity interest in the Target Company.

   Upon the completion of the Disposal, the registered capital of the Target Company will be increased from RMB694,573,800 as at the date of this circular to RMB913,404,500 and the Target Company will be held as to approximately 56.667% by the Company and approximately 43.333% by YAM, therefore the Target Company will remain as a subsidiary of the Company and its accounts will continue to be consolidated with those of the Group. Changes in the Group's interests in the Target Company does not result in the Group losing control over the Target Company are accounted for as equity transactions and no gain or loss arising from the transaction was recognised in profit or loss.

   The adjustment represents, for the purpose of the unaudited pro forma financial information, the equity transaction arising from the deemed disposal of 23.958% equity interest in the Target Company as if the Disposal had been completed on 31 December 2020.

3. The results and cash flows of the Target Company were consolidated into the Company's consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows up to the Completion. The adjustment represents, for the purpose of the unaudited pro forma financial information, the increase in share of result of the Target Company by the non-controlling interests for the year ended 31 December 2020 as if the Disposal had been completed on 1 January 2020.

   No pro forma adjustment to the consolidated statement of cash flows as the consideration amounting to RMB500,000,000 was received during the year ended 31 December 2020.

4. All the above adjustments in respect of the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows above are not expected to have a continuing effect on the Remaining Group.

5. No adjustment has been made to reflect any trading results or other transaction of the Group entered into subsequent to 31 December 2020.

* *For identification purposes only*

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

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大華馬施雲會計師事務所有限公司

Independent Reporting Accountants' Assurance Report on the Compilation of Unaudited Pro Forma Financial Information

To the Directors of Yunnan Water Investment Co., Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Yunnan Water Investment Co., Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated balance sheet as at 31 December 2020, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2020 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out in Part A of Appendix III to the circular dated 25 June 2021 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the directors of the Company have compiled the Unaudited Pro Forma Financial Information are described in Part A of Appendix III to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors of the Company to illustrate the impact of the very substantial disposal in relation to the deemed disposal of 23.958% equity interest in Yunnan Yunshui Construction & Engineering Co., Ltd. (the "**Disposal**") on the Group's financial position as at 31 December 2020 and the Group's financial performance and cash flows for the year ended 31 December 2020 as if the Disposal had taken place at 31 December 2020 and 1 January 2020, respectively. As part of this process, information about the Group's financial position as at 31 December 2020 and the Group's financial performance and cash flows for the year ended 31 December 2020 has been extracted by the directors of the Company from the Group's consolidated financial statements of the Company for the year then ended, on which an audit report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 31 December 2020 or 1 January 2020 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors of the Company in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Moore Stephens CPA Limited
Certified Public Accountants

Cheung Sai Kit
Practising Certificate Number: P05544

Hong Kong, 25 June 2021

The following is the summary of the Valuation Report dated 23 December 2020 from the Independent Valuer, for, amongst other purposes, inclusion in this circular.

中和資產評估有限公司
ZhongHe Appraisal Co.,Ltd.

Asset Valuation Report (Summary) on the Value of the Total Shareholders' Equity Interests in Yunnan Yunshui Construction & Engineering Co., Ltd.* (雲南雲水建設工程有限公司) in Relation to the Proposed Capital Increase of the Target Company (Zhong He Ping Bao Zi (2020) No. KMV2059)

THE APPRAISAL

Appraised entity	:	The Target Company
Subject matter of the appraisal	:	The value of the total shareholders' equity interests in the Target Company
Valuation Reference Date	:	30 June 2020
Scope of valuation	:	All assets and liabilities of the Target Company
Type of value of the subject matter	:	Market value
Valuation approach adopted	:	Asset-based approach

ASSET-BASED APPROACH

The asset-based approach refers to a valuation method based on the balance sheet of the appraised entity as at the Valuation Reference Date under which the values of various on-and-off-balance-sheet assets and liabilities are reasonably assessed, so as to ascertain the value of the subject of valuation. Under such approach, the historical cost is replaced with the current market value for all individual assets and liabilities items on an enterprise's balance sheet from the perspective of asset replacement cost.

Assumptions

(A) ***General assumptions***

1. There are neither significant changes in the relevant existing laws, regulations and policies in the PRC as well as national macroeconomic situation, nor material changes in the political, economic and social environment of the regions in which the parties to this transaction are located;

2. There are no significant changes in the relevant interest rates, exchange rates, tax bases and rates, policy-based levies, etc.;

3. It is assumed that the appraised entity is operating on an on-going basis, and its way and standard of management, operating direction and scope of operation are generally consistent with those as at the Valuation Reference Date;

4. It is assumed that unless otherwise specified, the appraised entity complies with the relevant laws and regulations, and has a relatively stable number of capable management and technical cadre who are capable to carry out their functions and duties in an accountable manner;

5. It is assumed that the accounting policies to be adopted by the appraised entity in the future are substantially consistent with those adopted in the preparation of the Valuation Report in material aspects; and

6. There are no other force majeure and unpredictable factors that have a significant adverse impact on the appraised entity.

(B) ***Specific assumptions***

1. It is assumed that the technical personnel and senior management of the Target Company would remain relatively stable and there would be no significant turnover of core professional personnel in the years;

2. It is assumed that the current and future operators of the Target Company are accountable and its management would be able to steadily proceed with the development plan of the Target Company to maintain a good operating position;

3. It is assumed that the future operators of the Target Company would comply with the relevant PRC laws and regulations, and there would be no major non-compliance that might affect the development and realisation of income of the Target Company;

4. It is assumed that the accounting policies adopted in the preparation of the financial information provided by the Target Company in previous years are generally consistent (or have been adjusted to be consistent) with the accounting policies and the accounting methods used in the preparation of the revenue forecast in material aspects;

5. The high-tech enterprise certification of YMT, a wholly-owned subsidiary of the Target Company, is valid until 2022. It is assumed that the renewal of such high-tech enterprise certification after 2022 would be obtainable, and a preferential income tax rate of 15% would be also adopted for the purpose of appraising the equity interest of YMT; and

6. As the three patents for invention owned by the Target Company and used by its wholly-owned subsidiary, YMT, are used in conjunction with the patented technologies owned by the wholly-owned subsidiary for the production of hollow fiber membrane and large-sized membrane module, it is assumed that the patent rights of the Target Company would be provided to the subsidiary at nil consideration during the validity period.

Methodology and valuation of assets and liabilities

Assets of the Target Company are appraised using the following methods:

(I) Current assets: In this valuation, current assets are divided into the following categories, which are appraised using different valuation methods:

1. Monetary current assets: representing bank deposits, the appraised value of which is determined at their verified value by means of checking bank statements and bank confirmations, etc..

2. Receivables and prepayments under current assets: for accounts receivables and other receivables under current assets, their appraised value is determined through reasonable judgment of the recoverability of the assets, deducting the estimated potential bad debt after checking and verifying their book balances; for prepayments, their appraised value is determined based on the goods or services that can be recovered and the assets or rights arising therefrom.

3. Other current assets: representing input value-added tax to be deducted and prepaid surcharge, the appraised value of which is determined based on their verified value after checking and verifying their book balances.

4. Inventories: representing construction works and goods delivered. Overhead expenses for construction works are those to be amortised arising from each project. As the gross profit of the projects being considered in the inventory valuation of the corresponding projects have not deducted overhead expenses, such expenses will be carried forward to project costs in the future, and are evaluated at zero accordingly. The appraised value of outsourced projects under construction works is determined based on the actual costs incurred after verification, taking into account the gross profit corresponding to the project, less selling expenses, all taxes and the appropriate amount of net profit after tax. Goods delivered are mainly equipment and materials required for each project, most of which are various instruments, centrifugal pump power distribution and control equipment, metering pumps, pipe fittings, ultraviolet disinfection equipment, pipe networks, concrete, etc. Their appraised value is determined based on the actual costs incurred after verification, taking into account the gross profit corresponding to the project, less selling expenses, all taxes and the appropriate amount of net profit after tax.

The valuation results of the current assets of the Target Company are as follows:

Current	Book value	Appraised value	Appreciation	Appreciation rate
	RMB	*RMB*	*RMB*	*%*
Monetary fund	3,322,135.91	3,322,135.91	—	—
Accounts receivables	2,618,323,048.03	2,618,323,048.03	—	—
Prepaid accounts	149,104,427.26	149,104,427.26	—	—
Other receivables	929,372,637.43	929,372,637.43	—	—
Inventories	51,465,284.90	59,246,236.89	7,780,951.99	15.12
Other current assets	23,601,148.32	23,601,148.32	—	—
Total current assets	3,775,188,681.85	3,782,969,633.84	7,780,951.99	0.21

(II) Non-current assets: In this valuation, non-current assets are divided into the following categories, which are appraised using different valuation methods:

1. Available-for-sale financial assets

For long-term equity investments in which the percentage of shareholding held by the appraised entity is lower, their respective value is determined by the product of net assets in the investee company's financial statements multiplied by the percentage of shareholding as at the Valuation Reference Date.

The available-for-sale financial assets included in this valuation are the equity investments in Fanya Water Co., Ltd.* (泛亞水務有限公司) ("**Fanya Water**") since July 2016, representing 10% of the equity interests in Fanya Water, with book balances amounting to RMB761,768.32, the provision for impairment amounting to RMB624,372.32, and the book value of RMB137,396.00. The book balances refers to the balances on the books as at 30 June 2020, while the book value is calculated by deducting the provision for impairment from the book balances. The value of the equity interest held by the Target Company in Fanya Water is determined by multiplying the equity attributable to all owners as shown in the balance sheet of Fanya Water with the shareholding percentage. As the owners' equity of Fanya Water held by the Target Company is far lower than the book balances of Fanya Water, the value of the investment in Fanya Water by the Target Company has shown signs of impairment. Accordingly, the provision of impairment has to be made. As at 30 June 2020, the total assets of Fanya Water amounted to RMB2,093,126.49 with total liabilities amounting to RMB719,166.49 and total net assets amounting to RMB1,373,960.00. The financial statements of Fanya Water as at 30 June 2020 is unaudited.

The appraised value is calculated by multiplying the book value of the net assets of Fanya Water as at the Valuation Reference Date by the percentage of shareholding by the Target Company as follows:

Book value of the net assets of Fanya Water × Percentage of shareholding (%)

= RMB1,373,960.00 × 10%

= RMB137,396.00

After valuation, the appraised value of the 10% equity interests in Fanya Water held by the Target Company is RMB137,396.00.

2. Long-term equity investment

Through the overall valuation of the investee company, the value of such long-term equity investment is determined by the product of the value of total shareholders' equity derived from the overall valuation of the investee company multiplied by the proportion of actual capital contribution by the Target Company.

The book value of the long-term equity investments is RMB86,640,746.45. The investee company is YMT. The date of investment is 13 December 2013, and the percentage of shareholding is 100%.

The three generally accepted valuation approaches were considered for appraising the fair value of YMT, namely, the market approach, asset-based approach and income approach, in conducting the YMT Valuation as at the Valuation Reference Date. Due to insufficient comparable transactions with comparable business structure, asset size, scale of operations, profitability and other factors, the Independent Valuer considered it inappropriate to adopt the market approach. In addition, given that YMT holds various patents and its unique membrane technology is relatively competitive in the industry, the asset-based approach is also not appropriate as such approach may overlook the comprehensive profitability of each asset in the overall asset appraisal taking into account (i) the advanced technology held by YMT; (ii) the branding advantage in the market of YMT; and (iii) the well-developed customer base of YMT. On the other hand, the income approach takes into account various business characteristics, such as strength, growth prospects, operation, capital structure and risk factors, and is able to deliver a specific valuation rather than an industry average valuation. Considering the expected relatively stable source of revenue of YMT in the future, the expected future return and the risk to be borne by the asset owner to obtain the expected return are both predictable and can be measured in currency, and the expected profit period can be predicted by the enterprise. Accordingly, the income approach was adopted for the YMT Valuation. The income approach refers to the evaluation method of capitalising or discounting the expected benefits and determining the value of the appraised object.

The major assumptions adopted in this valuation are set forth as follows:

(1) the technical personnel and senior management of YMT would remain relatively stable and there would be no significant turnover of the core professional personnel of YMT;

(2) the current and future operators of YMT are accountable and its management would be able to steadily proceed with its development plans and maintain YMT in a good operating position;

(3) the future operators of YMT would comply with relevant PRC laws and regulations and there would be no major non-compliance that might affect the development and realisation of income of the company;

(4) the accounting policies adopted in the historical financial information provided by YMT are generally consistent with the accounting policies and accounting methods adopted in formulating revenue forecast in all material aspects;

(5) all liabilities of YMT are fully reflected and there are no contingent liabilities;

(6) the high-tech enterprise certification of YMT would be renewed and the income tax rate would continue to be at a preferential rate of 15%; and

(7) the Target Company has not charged YMT any royalties for the patent rights it owns, and such situation shall continue and YMT would not incur royalties in the future.

In order to estimate the market value of the entire shareholder's interest in YMT, the appraisal results from income approach has been adopted as the final valuation results. The income method is used to obtain the value of the appraised entity's operating assets at the base date by substituting the expected future earnings of the appraised entity and discounting them to the present value at the base date by applying an appropriate discount rate. Then, the value of surplus assets, the value of non-operating assets and the value of long-term equity investments are added while the value of shareholders' equity is substituted by the interest-bearing debt. The type of revenue used for the valuation is free cash flow generated by the appraised entity. Free cash flow is equal to the balance of the appraised entity's interest-free net profit (after tax) plus non-cash expenses such as depreciation and amortization, and minus additional expenditures for reinvestment in working capital and capital expenditure, which is the accumulated after-tax cash flow generated by the company, available for all capital providers of the company, including creditors and shareholders. For the selection of the discount rate, the weighted average cost of capital model ("**WACC**") was adopted. The WACC has been estimated based on a standard formula incorporating the cost of equity and cost of debt as well as a fixed capital structure. To determine the required rate of return on equity of YMT, the capital asset pricing model (the "**CAPM Model**") was adopted for the purposes of estimation. The CAPM Model states that the cost of equity is the risk-free rate plus a linear function of a measure of systematic risk times equity market premium in general. The CAPM Model technique is widely accepted in the investment and financial analysis communities for the purpose of estimating a company's required rate of return on equity. In arriving at the required rate of return on equity of YMT, the Independent Valuer has taken into account a number of factors including (i) risk-free rate; (ii) market return; (iii) size premium; (iv) specific risk premium; and (v) systematic risk or "beta coefficient", the determination basis of which are set forth below:

(i) *risk-free rate:* it is a common market practise to adopt the 10-years treasury yield rate of PRC government bonds of 3.82% as the risk-free rate for the asset in the PRC;

(ii) *market return:* represents the sum of (i) 6.43%, being the basic market risk premium, being the simple average of the excess rate of return of the shares over government bond rate in the United States of America between 1928 and 2019; and (ii) 0.69%, being the country risk premium of the PRC by reference to the country credit rating of the PRC as granted by Moody's Investors Service, and the market return used in the CAPM Model is approximately 7.12%;

(iii) *size premium:* A number of researches around the world show that a small enterprise require an average rate of return significantly higher than that of a large enterprise. Compared to the constituents of CSI 300 Index, the appraised entity is of smaller scale. As a result, the valuers consider that it is necessary to adjust size premium. According to the comparison and judgments of the valuers, the valuers consider that an additional 1.50% (usually 0%–4%) return for scaling risks is reasonable;

(iv) *specific risk premium:* taking into account that (i) the majority of YMT's products and technology are still being developed; (ii) YMT is currently in the growth stage of its business cycle; (iii) the historical operation performance of YMT; (iv) YMT's reliance on the major customer and supplier; (v) the experience and qualifications of YMT's management; and (vi) the financial risk exposure, it is appropriate to include a specific risk premium of 2% to the CAPM Model; and

(v) *systematic risk or beta coefficient:* in measuring the systematic risk or beta-coefficient of YMT of 0.6436, the average of the unleveraged beta-coefficient of market comparable companies of approximately 0.6189 was multiplied by 1 plus the debt-to-equity ratio after tax adjustment (dividing the total debt by the total equity and multiplying by 1 minus tax rate) of YMT of approximately 3.99%.

Based on the foregoing, the required rate of return on equity of YMT is estimated to be approximately 11.9%.

As at the Valuation Reference Date, the valuation results of the entire equity interest of YMT amounted to RMB639,000,000.00, and the valuation results of the long-term equity investments in YMT by the Target Company are as follows:

Appraised value = the appraised value of the net assets of YMT × Percentage of shareholding

= RMB639,000,000.00 × 100.00%

= RMB639,000,000.00

3. Buildings

The replacement cost approach is adopted for this valuation, and the valuation results of the buildings to be assessed are calculated according to the following formula:

Appraised value = full replacement price × newness rate

(1) Determination of full replacement price

Full replacement price = comprehensive cost of construction and installation project + upfront fees and other expenses + cost of capital

In which:

Comprehensive cost of construction and installation project refers to the construction cost paid to the contractor by the construction unit directly invested in the construction of the project, which is calculated based on the following formula:

Comprehensive cost of construction and installation project = cost of construction works + cost of decoration works + cost of installation works

The valuers would classify and gather according to the usage of buildings, and select representative buildings with same usage and structure. They will determine the comprehensive cost of construction and installation project as at the Valuation Reference Date according to the information collected which reflect the design, budget and final account and contract of volumes of construction, with reference to the estimated budget quota and engineering cost information of the location of buildings.

For other buildings, the comprehensive cost of construction and installation projects can be calculated by analogy with adjustments based on the cost of construction and installation projects of certain representative buildings with same usage and structure as calculated by the valuers, or the construction and installation cost of similar projects as collected by the valuers, combining with the data and parameters commonly used for the valuation of buildings.

Upfront fee and other expenses refer to other expenses that should be incurred during the construction and paid to the relevant unit and government department other than contractor. Those amounts are determined respectively according to the charge items and standards and charge of professional service set by the State and the local competent departments of buildings, and the characteristics of the appraised construction project. For the appraised buildings for which the construction project application procedures had not been completed on the Valuation Reference Date, administrative fees payable for the project application were not taken into account in the valuation, but the fees for professional services such as surveying and design as well as management fees for the construction entity incurred to comply with the construction requirements of the appraised buildings and the standards in effect as at the Valuation Reference Date.

The cost of capital is calculated based on the reasonable construction period which is determined according to the scale of appraised construction. The selected lending rate in the relevant period effective as at the Valuation Reference Date and the assumption that the capital of construction is invested equally are included in such calculation.

As at 30 June 2020, the original book value and net book value of the buildings submitted for valuation by Yunnan Yunshui Construction & Engineering Co., Ltd. amounted to RMB92,441,985.41 and RMB80,500,866.95, respectively.

(2) Determination of newness rate

Newness rate = remaining service life of building ÷ (used service life of buildings + remaining service life of buildings) × 100%

Remaining service life is determined based on the economic service life of buildings, combining with its use and maintenance conditions.

After conducting assets verification, pricing basis review and assessment and estimation, as at 30 June 2020, the original book value, net book value and full replacement price of the buildings submitted for valuation by Yunnan Yunshui Construction & Engineering Co., Ltd. amounted to RMB92,441,985.41, RMB80,500,866.95 and RMB96,379,200.00, respectively, with an appraised value of RMB88,209,974.00, representing an appreciation of RMB7,709,107.05 or an appreciation rate of 9.58%.

Summary of Buildings Appraisal

No.	Item	Book value Original	Book value Net	Appraised value Original	Appraised value Net	Appreciation rate % Original	Appreciation rate % Net
		RMB	*RMB*	*RMB*	*RMB*	%	%
1	Buildings	92,441,985.41	80,500,866.95	57,075,100.00	50,596,474.00	-38.26	-37.15
2	Structures and other auxiliary facilities	—	—	39,304,100.00	37,613,500.00		
	Total	**92,441,985.41**	**80,500,866.95**	**96,379,200.00**	**88,209,974.00**	**4.26**	**9.58**

4. Machinery equipment:

The replacement cost approach is mainly adopted based on the valuation purposes and the characteristics of the evaluated equipment according to the following formula:

Appraised value = full replacement price × newness rate

(1) Determination of full replacement price of equipment

① Vehicles used for transportation purposes

It is determined according to the current market price of similar vehicles on the Valuation Reference Date, taking into account the corresponding purchase surtax, license fees and charges, etc.

② Electronic equipment

It is determined mainly by checking the relevant quotation material as at the Valuation Reference Date.

(2) Determination of comprehensive newness rate of equipment

① Vehicles used for transportation purposes

The age limit approach and mileage approach are used for calculation of newness rate, with the lower of the two approaches being taken as the theoretical newness rate. On the basis of this, the on-site vehicle inspection results will be used to determine the factors used for the adjustment of the theoretical newness rate, and the adjusted theoretical newness rate will be used as comprehensive newness rate.

Comprehensive newness rate = theoretical newness rate × correction coefficient

In which:

Theoretical newness rate = Min (newness rate of age limit approach, newness rate of mileage approach)

Newness rate of age limit approach = (economic service life – used service life)/ economic service life × 100%

Newness rate of mileage approach = (set travel distance – travelled distance)/set travel distance × 100%

② Electronic equipment

Newness rate = remaining service life of equipment ÷ (used service life of equipment + remaining service life of equipment) × 100%

The original book value, net book value and full replacement price of the machinery and equipment of the Target Company included in this valuation amounted to RMB5,453,761.77, RMB2,107,375.11 and RMB4,355,840.00, respectively, with an appraised value of RMB2,396,394.10, representing an appreciation of RMB289,018.99 or an appreciation rate of 13.71% as compared with the net book value.

Summary of Machinery and Equipment Appraisal

Item	Original book value	Net book value	Full replacement price	Appraised value	Appreciation	Appreciation rate
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*%*
Vehicles	3,676,164.39	1,328,094.54	3,088,800.00	1,675,136.00	347,041.46	26.13
Electronic equipment	1,777,597.38	779,280.57	1,267,040.00	721,258.10	-58,022.47	-7.45
Total	**5,453,761.77**	**2,107,375.11**	**4,355,840.00**	**2,396,394.10**	**289,018.99**	**13.71**

5. Intangible assets — land use rights

As for land use rights, the approximation approach and market comparison approach are used for valuation.

(1) Market comparison approach

The market comparison approach is a method of arriving at the price of subject land parcel as at the Valuation Reference Date, under which the principle of substitution is applied by comparing the subject land parcel with similar land transaction case in the recent period (the "**Comparables**"), after adjusting the known price of the latter by applying the variables, such as transaction situation, date, regional and individual factors of the land parcel. The formula is as follows:

$$P_D = P_B \times A \times B \times D \times E$$

Where:

P_D — price of the subject land parcel

P_B — land price in comparable case

A — subject land parcel condition index/land parcel condition index in comparable case
= normal condition index/land parcel condition index in comparable case

B — land price index of subject land parcel on the valuation date/land price index of land parcel in comparable case on the transaction date

D — regional factor condition index of subject land parcel/regional factor condition index of land parcel in comparable case

E — individual factor condition index of subject land parcel/individual factor condition index of comparable land parcel

For the purpose of this valuation, pursuant to the Regulations of Valuation on Land (《土地估價規程》), the number of the Comparables adopted shall be no less than 3, and the Comparables shall be selected based on the following criteria (the "**Selection Criteria**"):

(1) the valuation date of the relevant transaction involving the subject land parcel (the "**Subject Land**") shall not exceed 3 years from the transaction date of each of the Comparables adopted;

(2) the similarities between the Comparables and the Subject Land shall be more than the differences between them;

(3) the land uses of the Comparables shall be the same as the Subject Land;

(4) the land conditions of the Comparables shall be basically the same as the Subject Land; and

(5) the Comparables shall be normal (or can be adjusted to be normal) real-life transaction cases situated in the adjacent region or in the similar region within the same supply and demand circle of the Subject Land.

In this regard, 3 of the land transaction cases were selected to be the Comparables as (i) their land uses, being industrial and warehousing, are similar to the Land with similar land conditions; (ii) they are all located in Kunming City; and (iii) their transaction dates were all within 3 years prior to the date of this valuation, which are exhaustive based on the Selection Criteria for the purpose of this valuation. Set forth below are the details of the Comparables:

No.	Owner of land use right	Location of land parcel	Area (square meter)	Unit land value (RMB/ square meter)	Land use	Date of contract
1.	Yunnan Landian Information Industry Co., Ltd.* (雲南藍典信息產業有限公司)	Southeast of Yuhua Sub-district, Chenggong District, Kunming City	19,994	489.98	Industrial land	23 April 2020
2.	Kunming Pukun Industrial Development Co., Ltd.* (昆明普昆產業發展有限公司)	Land JK-QS-B1-01-02 at Qingshui Sub-district, Kunming Economic and Technological Development Zone	61,861	613.55	Warehouse land	16 October 2019
3.	Yunnan Yongfa Plastic Industrial Co., Ltd.* (雲南永發塑業有限公司)	Land JK-XX-27-02 at the Information Industry Base of Kunming Economic and Technological Development Zone	14,151	615.10	Industrial land	13 August 2019

(2) Cost approximation approach

The cost approximation approach is a method of determining land price where the costs of land acquisition and various expenses incurred in land development are aggregated as a major basis, plus a certain amount of profit, interest, taxes payable and gain from land appreciation. The formula is a follows:

Price for land use rights = land acquisition cost + land development expense + tax + interest + profit + gain from appreciation

Yunnan Yunshui Construction & Engineering Co., Ltd. held the land use right of land parcel No. B-5-18-1 located at Kunming New City High Tech Industrial Base (the "**Land**"). The Land, with a registered area of 40,000.01 square meters in total, had an original carrying value and book value of RMB21,695,630.00 and RMB18,911,357.71, respectively, which was used for the membrane module production base of YMT.

The appraised area of the Land was 40,000.01 square meters with total appraised value of RMB21,753,600, details of which are set out in the table below:

No.	Owner of land use Right	No. of land use right certificate	Expiry date	Appraised area (square meter)	Unit land value (RMB/ square meter)	Appraised value (RMB'000)
1	YMT	Cheng (Gaoxin) Guo Yong (2014) No. 00002	8 January 2064	40,000.01	543.84	21,753.6
Total				**40,000.01**		**21,753.6**

6. Intangible assets

For the patent rights, being one of the intangible assets, as the patent rights are used in the production of the wholly-owned subsidiary, YMT, and are used in conjunction with its own patented technology for the production of hollow fiber membrane and large-sized membrane module, the patent rights of the Target Company are merged into those of the subsidiary for appraisal this time.

For outsourced software, namely BioWin design software and GPS-X software, the market price is used as the appraised value with the aggregate book value amounting to RMB104,907.62, which were purchased by the Target Company in 2018. After this valuation, the appraised value of these two sets of software amounted to RMB97,500.00 in aggregate.

7. Deferred income tax assets: representing the difference between the book value arising from the provision for bad debts, etc. and its tax basis, using the verified book value as their appraised value. The book value of deferred income tax assets of the valuation amounted to RMB8,116,038.19 in aggregate. The deferred income tax assets are generated from the provision for bad debts, which are the differences between the book value of the assets and their tax bases arising from the differences in the corporate accounting standards and the PRC tax laws in subsequent measurement. The appraised value was recognised at the book value of the deferred income tax asset of RMB8,116,038.19.

(III) Liabilities: Their appraised value is determined based on the items and amounts of liabilities to be actually assumed by the appraised company. The liabilities reported by the Target Company included short-term borrowings, notes payables, trade payables, receipts in advance, tax payables, dividends payables and other payables. The valuation results of the liabilities of the Target Company are shown in the summary table below:

Items	**Book value**	**Appraised value**	**Appreciation**	**Appreciation rate**
	RMB	*RMB*	*RMB*	*%*
Short-term borrowings	750,000,000.00	750,000,000.00	—	—
Notes payables	78,844,778.05	78,844,778.05	—	—
Trade payables	1,827,413,118.50	1,827,413,118.50	—	—
Receipts in advance	48,635,598.68	48,635,598.68	—	—
Tax payables	96,295.18	96,295.18	—	—
Dividends payables	250,000,000.00	250,000,000.00	—	—
Other payables	678,681.77	678,681.77	—	—
Total	**2,955,668,472.18**	**2,955,668,472.18**	**—**	**—**

VALUATION CONCLUSION

As at the Valuation Reference Date, on a going concern basis and as appraised with the asset-based approach, the book value of total assets of the Target Company amounted to RMB3,975,041,100, while their appraised value was RMB4,542,680,500, representing an appreciation of RMB567,639,400, or an appreciation rate of 14.28%; the book value of its total liabilities was RMB2,955,668,500, while their appraised value was RMB2,955,668,500; the book value of the shareholders' equity was RMB1,019,372,600, while the appraised value of the shareholders' equity was RMB1,587,012,000, representing an appreciation of RMB567,639,400, or an appreciation rate of 55.69%. The details of the valuation results are summarised as follows:

Table of Assets Valuation Results

Valuation Reference Date: 30 June 2020

Items		Book value *RMB'0,000* A	Appraised value *RMB'0,000* B	Appreciation *RMB'0,000* C=B–A	Appreciation rate *%* D=C/A*100%
Current assets	1	377,518.87	378,296.96	778.09	0.21
Non-current assets	2	19,985.24	75,971.09	55,985.85	280.14
Of which: Available-for-sale financial assets	3	13.74	13.74		
Held-to-maturity investment	4				
Long-term receivables	5				
Long-term equity investment	6	8,664.07	63,900.00	55,235.93	637.53
Investment properties	7				
Fixed assets	8	8,260.82	9,060.64	799.82	9.68
Construction in progress	9				
Construction materials	10				
Fixed assets in liquidation	11				
Productive biological assets	12				
Oil and gas assets	13				
Intangible assets	14	2,235.00	2,185.11	-49.89	-2.23
Development costs	15				
Goodwill	16				
Long-term deferred expenses	17				
Deferred income tax assets	18	811.60	811.60		
Other non-current assets	19				
Total assets	**20**	**397,504.11**	**454,268.05**	**56,763.94**	**14.28**
Current liabilities	21	295,566.85	295,566.85		
Non-current liabilities	22				
Total liabilities	**23**	**295,566.85**	**295,566.85**		
Net assets (owners' equity)	**24**	**101,937.26**	**158,701.20**	**56,763.94**	**55.69**

The Target Company and its subsidiary are high-tech environmental protection companies integrating processes of design, construction and system integration. They have been committed to technology and product development, engineering design, project implementation and equipment manufacturing in the fields of urban wastewater treatment and utilisation of resources, industrial wastewater treatment, domestic waste and kitchen waste treatment and utilisation of resources, etc.

As the environmental protection industry has been highly volatile in recent years and significantly affected by the factors of national policies and funding, the Target Company, as an environmental protection project construction enterprise, may generate unstable income and even encounter difficulty in forecasting the income of future engineering projects due to discontinuity of its principal environmental protection engineering projects, which could lead to a deviation between the Target Company's operations during the forecast period and its actual conditions in the future.

As aforementioned, given the purposes of this appraisal, the valuers consider that the appraisal results of the asset-based approach can better reflect the true value of subject assets. The appraisal results of the asset-based approach are adopted as the final appraisal results of subject assets.

PROFESSIONAL QUALIFICATIONS OF ZHONGHE APPRAISAL CO., LTD.

Established in 1995 with a registered capital of RMB3,737,000, ZhongHe Appraisal Co., Ltd. is one of the earliest professional institutions engaged in asset appraisal business in China, and is also the first institution granted with securities asset appraisal qualifications by the original State-owned Assets Administration Bureau of the PRC and China Securities Regulatory Commission. It possesses comprehensive qualifications such as assets appraisal qualifications, securities and futures appraisal qualifications, forest resources appraisal qualifications, confidential military business qualifications as well as construction cost consultation qualifications, which enable it to provide a full range of valuation and consulting services for clients. The company is currently one of the largest, most influential and technically strongest large appraisal institutions in China.

Our company possesses all the highest qualifications in the assets appraisal industry and the Assets Valuation Qualification Certificate issued by the Ministry of Finance of the PRC, as well as the permit to engage in securities business assets appraisal and the national certified qualification for land valuation, etc., among which:

Approval number of Assets Valuation Qualification Certificate: Filing Announcement of the Beijing Municipal Bureau of Finance (No. 2017-0085)

Approval number of the Valuation Qualification Certificate for Securities and Futures Related Business: The Filing List of Asset Appraisal Agency Engaged in Securities Services Business (《資產評估機構從事證券服務業務備案名單》) with the Ministry of Finance of the PRC (filing announcement date 9 November 2020), the Filing List and Basic Information of Asset Appraisal Agency Engaged in Securities Services Business as of 10 October 2020 (《從事證券服務業務資產評估機構備案名單及基本信息 (截止2020年10月10日) 》) with the China Securities Regulatory Commission

The valuers participated in this appraisal, who are certified assets evaluators as approved by and registered with the Ministry of Finance of the PRC, are as follows:

Name	Valuer certificate number	Company name	Relevant experience
Zhang Qionghui (張瓊輝)	53040021	Zhonghe Appraisal Co., Ltd. (Southwest Branch)	She is the business partner of Southwest Branch of ZhongHe Appraisal Co., Ltd., an asset valuer and an economist. Since 2005, she has been engaged in asset evaluation and has extensive experiences in valuation.
Tan Xiang (譚翔)	53190029	Zhonghe Appraisal Co., Ltd. (Southwest Branch)	He graduated from Southwest Forestry University majoring in fire-fighting engineering. He worked in Yunnan Yuantong Investment Co., Ltd.*(雲南圓通投資有限公司), and currently is the business partner of ZhongHe Appraisal Co., Ltd. He is an asset valuer with approximately 10 years of experiences in valuation.

* *For identification purposes only*

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The Board of Directors
Yunnan Water Investment Co., Limited
2089 Haiyuan Bei Road
Gaoxin District
Kunming, Yunnan
PRC

Dear Sirs,

REPORT ON DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE EQUITY INTEREST IN YUNNAN ORIGINWATER MEMBRANE TECHNOLOGY CO., LTD.

To the Board of Directors of Yunnan Water Investment Co., Limited

We have been engaged to review and report on the accounting policies used for the profit forecast in the preparation of the discounted future estimated cash flows (the "**Underlying Discounted Cash Flows**") and the arithmetical accuracy of the calculations of the Underlying Discounted Cash Flows underlying the business valuation (the "**Valuation**") on which the valuation dated 23 December 2020 prepared by ZhongHe Appraisal Co., Ltd. in respect of the entire equity interest in the business enterprise of Yunnan OriginWater Membrane Technology Co., Ltd. ("**YMT**"), a wholly-owned subsidiary of Yunnan Yunshui Construction & Engineering Co., Ltd. (the "**Target Company**"), as at 30 June 2020 is based. The Valuation, prepared in connection with YMT is set out in Appendix IV to the Circular. The Valuation which is based on the Underlying Discounted Cash Flows is regarded as profit forecasts under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Responsibilities

The directors of the Target Company (the "**Directors**") are solely responsible for the preparation of the Underlying Discounted Cash Flows using accounting policies adopted in the preparation of the financial information of YMT, which are consistent with the accounting policies of the Target Company set out in Appendix II to the Circular. The Underlying Discounted Cash Flows have been prepared using a set of bases and assumptions (the "**Assumptions**") determined by the Directors, the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in Section A and B in Appendix IV to the Circular.

Reporting Accountant's Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion on the accounting policies used for the profit forecast in the preparation of the Underlying Discounted Cash Flows and the arithmetical accuracy of the calculations of the Underlying Discounted Cash Flows based on our work.

We conducted our engagement in accordance with the terms of our engagement letter dated 30 April 2021 and Hong Kong Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies used for the profit forecast in the preparation of the Underlying Discounted Cash Flows and the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Underlying Discounted Cash Flows in accordance with the Assumptions adopted by the Directors and as to whether the accounting policies used for the profit forecast in the preparation of the Underlying Discounted Cash Flows are consistent with the accounting policies adopted in preparation of the financial information of YMT and the Target Company. Our work consisted primarily of reviewing the accounting policies used for the profit forecast in the preparation of the Underlying Discounted Cash Flows and checking the arithmetical accuracy of the calculations of the Underlying Discounted Cash Flows prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Underlying Discounted Cash Flows are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of YMT. The Assumptions used in the preparation of the Underlying Discounted Cash Flows include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Discounted Cash Flows and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of, or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the accounting policies used for the profit forecast in the preparation of the Underlying Discounted Cash Flows and the arithmetical accuracy of the calculations of the Underlying Discounted Cash Flows are concerned, the accounting policies used for the profit forecast in the preparation of the Underlying Discounted Cash Flows are in all material respects consistent with the accounting policies adopted in preparation of the financial information of YMT and the Target Company and the Underlying Discounted Cash Flows have been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Yours faithfully,

Moore Stephens CPA Limited
Certified Public Accountants

Cheung Sai Kit
Practising Certificate Number: P05544

Hong Kong, 25 June 2021

The following is the text of a letter received from Opus Capital, the Independent Financial Adviser and the financial adviser to the Company in respect of Rule 14.62(3) of the Listing Rules, for the purpose of inclusion in this circular.

Opus Capital Limited
創富融資有限公司

18/F, Fung House
19–20 Connaught Road Central
Central, Hong Kong

25 June 2021

Yunnan Water Investment Co., Limited
2089 Haiyuan Bei Road,
Gaoxin District,
Yunnan Kunming,
PRC

Attention: The Board of Directors

Re: Letter of confirmation under Rule 14.62(3) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")

Dear Sirs,

We refer to the circular of Yunnan Water Investment Co., Limited (the "**Company**") dated 25 June 2021 (the "**Circular**") in relation to the Company's deemed disposal of 23.958% equity interest in Yunnan Yunshui Construction & Engineering Co., Ltd.* (雲南雲水建設工程有限公司) (the "**Target Company**", together with its subsidiaries, as the "**Target Group**"), which constitutes a very substantial disposal under the Listing Rules and the discounted cash flow forecast (the "**Forecast**") underlying the business valuation (the "**Valuation**") prepared by ZhongHe Appraisal Co., Ltd.* (中和資產評估有限公司) (the "**Independent Valuer**") in relation to the appraisal of the fair value of the entire equity interest in the business enterprise of Yunnan OriginWater Membrane Technology Co., Ltd.* (雲南城投碧水源膜科技有限責任公司) ("**YMT**"), a wholly-owned subsidiary of the Target Company as at 30 June 2020. The Forecast upon which the Valuation has been made is regarded as a profit forecast under Rule 14.61 of the Listing Rules. The principal assumptions upon which the Forecast is based are included in the letter from the board of the Circular. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

We have undertaken reasonableness checks to assess the relevant experience and expertise of the Independent Valuer and are satisfied that reliance could fairly be placed on the Independent Valuer's work.

We have reviewed the Forecast upon which the Valuation has been made and have discussed with the Board and the Independent Valuer the qualifications, bases and assumptions upon which the Forecast have been prepared by the Independent Valuer. We have also considered the report from Moore Stephens CPA Limited ("**Moore**") dated 25 June 2021 addressed to the Board complying with the relevant requirements under Rule 14.62(2) of the Listing Rules as set out in the Appendix V to the Circular regarding the accounting policies and calculations upon which the Forecast have been made. We have noted that Moore concluded in its report that, so far as the accounting policies used for the Forecast and the arithmetical accuracy of the calculations of the Forecast are concerned the accounting policies used for the Forecast are in all material respects consistent with the accounting policies adopted in preparation of the financial information of YMT and the Target Company, and the Forecast has been properly complied in all material respects in accordance with the assumptions adopted by the Directors.

Our work in connection with the Forecast has been undertaken solely for the purpose of complying with the relevant requirements under Rule 14.62(3) of the Listing Rules. Based on the foregoing and on the basis that (i) the qualification, bases and assumptions adopted by the Independent Valuer in respect of the Forecast have been reviewed by the Directors; and (ii) the Directors are satisfied that no further matters should be brought to our attention, we are satisfied that (i) the Forecast underlying the Valuation, for which the Directors are solely responsible, have been made by the Directors after due and careful enquiry; and (ii) the qualifications, bases and assumptions adopted by the Independent Valuer have been made with due care and objectivity, and on a reasonable basis. However, we express no opinion as to how closely the actual cash flow will eventually correlate with the Forecast.

We have not independently verified the computations leading to the Independent Valuer's determination of the fair value and market value of YMT. We have had no role or involvement and have not provided and will not provide any assessment of the fair value and market value of YMT. Accordingly, save as expressly stated in this letter, we take no responsibility for and express no views, whether expressly or implicitly, on the fair value and market value of YMT as determined by the Independent Valuer and set out in the valuation report issued by the Independent Valuer or otherwise. We further confirm that the assessment, review and discussion carried out by us as described above are primarily based on financial, economic, market and other conditions in effect, and the information made available to us as of the date of this letter and that we have, in arriving at our views, relied on information and materials supplied to us by the Independent Valuer, the Group and the Target Group and opinions expressed by, and representations of, the employees and/or management of the Independent Valuer, the Group and the Target Group. We have assumed that all information, materials and representations so supplied, including all information, materials and representations referred to or contained in the Circular, for which the Directors are wholly responsible, were true, accurate, complete and not misleading at the time they were supplied or made, and remained so up to the date of the Circular and that no material fact or information has been omitted from the information and materials supplied. No representation or warranty, expressed or implied, is made by us on the accuracy, truth or completeness of such information, materials, opinions and/or representations. Circumstances could have developed or could develop in the future that, if known to us at the time of this letter, would have altered our respective assessment and review. Further, while the qualifications, bases and assumptions adopted by the Independent Valuer are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and the Independent Valuer.

We are acting as the financial adviser to the Company in reviewing the Forecast and will receive fees for such advice. We, our directors and affiliates will, neither jointly or severally, be responsible to anyone other than the Company for providing advice in connection with the review of the Forecast, nor will we, our directors or affiliates, whether jointly or severally, owe any responsibility to anyone other than the Company.

Nothing in this letter should be construed as an opinion or view as to the fair value, market value or any other value of YMT or as an opinion or recommendation to any person as to whether they should acquire the Shares. Shareholders are recommended to read the Circular with care.

A copy of this letter in its entirety may be reproduced in Appendix VI to the Circular on the basis that none of the Company, the Independent Valuer or any other person may reproduce, disseminate or quote this letter (or any part thereof) for any other purpose at any time and in any manner without our prior written consent. In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

Yours faithfully,
For and on behalf of
Opus Capital Limited
Cheung On Kit Andrew
Executive Director

* *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 percentage of the respective type of Shares in issue (%)	Approximate 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[1]	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Huang Yunjian[1]	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Liu Xujun[1]	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Wang Yong[1]	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
YHTH[1]	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30

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 (%)
Beijing OriginWater	Beneficial owner	Domestic Shares	286,650,000 (L)	34.56	24.02
China National Petroleum Corporation[2]	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Capital Company Limited[2]	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Capital Limited[2]	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
CNPC Assets Management Co., Ltd.[2]	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Ningbo Kunlun Xinyuan Equity Investment Management Partnership (Limited Partnership)[2]	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Kunlun Trust Co., Ltd.[2]	Interests in controlled corporation	Domestic Shares	124,754,169 (L)	15.04	10.46
Yantai Xinzhen Tianying Equity Investment Center (Limited Partnership)[2]	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[1]	Beneficial owner	H Shares	8,449,000 (L)	2.32	0.71
YHTH[1]	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 2020, 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 Latest Practicable Date 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 Latest Practicable Date:

(a) the equity acquisition and share issuance agreement dated 6 June 2021 entered into among Qianjiang Biochemical, Haining Water Investment Group and the Company in respect of the acquisition of equity interests from Haining Water Investment Group and the Company by Qianjiang Biochemical at the consideration of RMB2,103.2 million to be settled through the issuance of shares by Qianjiang Biochemical (the "**Equity Acquisition and Share Issuance Agreement**");

(b) the profit guarantee agreement dated 6 June 2021 entered into among Qianjiang Biochemical, Haining Water Investment Group and the Company to specify the arrangements in relation to the undertaking by Haining Water Investment Group and the Company as stipulated under the Equity Acquisition and Share Issuance Agreement to indemnify Qianjiang Biochemical in the event that Zhejiang Haiyun Environmental Protection fails to achieve any of the minimum net profit requirements as specified therein;

(c) the shortfall payment and transfer of trust interests agreement dated 11 September 2020 entered into between YPIG and Yunnan International Trust Co., Ltd.* (雲南國際信託有限公司) in respect of the guarantee provided by YPIG in favour of Yunnan International Trust Co., Ltd.* (雲南國際信託有限公司)(the "**Lender**");

(d) the equity pledge agreement dated 11 December 2020 entered into between the Company and YPIG in respect of the pledge of the entire equity interest in Yunnan Solid Waste Treatment Investment Co., Ltd.* (雲南固廢投資有限公司) by the Company to YPIG;

(e) the fee agreement dated 11 December 2020 entered into between the Company and YPIG in respect of the annual guarantee fee payable by the Company to YPIG calculated at 1.0% per annum based on the actual drawdown amount of the loan under the entrusted loan contract entered into between the Company and the Lender dated 11 September 2020 for the relevant year;

(f) the finance lease agreement dated 9 December 2020 between ABC Financial Leasing Co., Ltd.* (農銀金融租賃有限公司) ("**ABC Financial Leasing**") and Kaifa Xinquan Water (Tiantai) Co., Ltd* (凱發新泉水務(天台)有限公司) ("**Kaifa Xinquan (Tiantai)**"), pursuant to which Kaifa Xinquan (Tiantai) agreed to sell certain sewer pipe networks to ABC Financial Leasing at the consideration of RMB110,000,000 and ABC Financial Leasing agreed to leaseback the same to Kaifa Xinquan (Tiantai) for the lease term of eight years;

(g) the finance lease agreement dated 9 December 2020 between Bank of Communications Financial Leasing Co., Ltd. ("**BoCom Leasing**") and Dali Water Investment Co. Ltd.* (大理水務產業投資有限公司) ("**Dali Water**"), pursuant to which Dali Water agreed to sell the water supply and drainage pipeline network facilities in Dali City to BoCom Leasing at the consideration of RMB60,000,000 and BoCom Leasing agreed to leaseback the same to Dali Water for the lease term of 60 months;

(h) the finance lease agreement dated 9 December 2020 between CITIC Financial Leasing Co., Ltd.* (中信金融租賃有限公司) ("**CITIC Financial Leasing**") and Xinjiang Qinggeda Yunshui Environmental Industry Investment and Development Co., Ltd.* (新疆青格達雲水環保投資有限公司) ("**Qinggeda Yunshui**"), pursuant to which Qinggeda Yunshui agreed to sell the equipment and facilities of Longhe Wastewater Treatment Plant* (龍河污水處理廠) CITIC Financial Leasing at the consideration of RMB90,000,000 and CITIC Financial Leasing agreed to lease back the same to Qinggeda Yunshui for the lease term of five years;

(i) the finance lease agreement dated 20 February 2020 between Sanming Jinliya Environmental Protection Technological Investment Co., Ltd.* (三明市金利亞環保科技投資有限公司) ("**Sanming Jinliya**") and ABC Financial Leasing, pursuant to which Sanming Jinlinya agreed to sell certain power generation facilities and equipment to ABC Financial Leasing at the consideration of RMB300,000,000 and ABC Financial Leasing agreed to lease back the same to Sanming Jinliya for the lease term of eight years;

(j) the finance lease agreement dated 20 September 2020 between HLJ Yunshui Environmental Technology Services Co., Ltd ("**HLJ Yunshui**") and BoCom Leasing, pursuant to which HLJ Yunshui agreed to sell the engineering equipment and facilities of the hazardous waste centralised disposal site to BoCom Leasing at the consideration of RMB98,000,000 and BoCom Leasing agreed to lease back the same to HLJ Yunshui for the lease term of 60 months;

(k) the finance lease agreement dated 24 April 2020 between Kelamayi Haorui Water Co., Ltd.* (克拉瑪依浩瑞水務有限公司) ("**Kelamayi Haorui**") and CITIC Financial Leasing, pursuant to which Kelamayi Haorui agreed to sell the equipment and facilities of Kelamayi Wuwu Industrial Park wastewater treatment plant to CITIC Financial Leasing at the consideration of RMB170,000,000 and CITIC Financial Leasing agreed to lease back the same to Kelamayi Haorui for the lease term of five years;

(l) the finance lease agreement dated 27 November 2020 between Dali Water and BoCom Leasing, pursuant to which Dali Water agreed to sell water supply and drainage pipeline network facilities in Dali City to BoCom Leasing at the consideration of RMB140,000,000 and BoCom Leasing agreed to lease back the same to Dali Water for the lease term of 60 months;

(m) the finance lease agreement dated 12 June 2020 between Qinggeda Yunshui and CITIC Financial Leasing, pursuant to which Qinggeda Yunshui agreed to sell equipment and facilities of Wutong Wastewater Treatment Plant to CITIC Financial Leasing at the consideration of RMB210,000,000 and CITIC Financial Leasing agreed to lease back the same to Qinggeda Yunshui for the lease term of five years;

(n) the sale and purchase agreement dated 29 September 2020 entered into between the Company and Fuzhou Dingrong Environmental Protection Technology Co., Ltd.* (福州市鼎榕環保科技有限公司) ("**Dingrong Environmental Protection**") in relation to the disposal of 40% equity interest in Fujian Dongfei Environment Group Co., Ltd.* (福建東飛環境集團有限公司) by the Company to Dingrong Environmental Protection for the consideration of RMB375,200,000;

(o) 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;

(p) 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;

(q) 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) at the consideration of RMB290,000,000;

(r) 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;

(s) 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 at the consideration of RMB40,300,000;

(t) 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;

(u) 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; and

(v) 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).

9. EXPERTS AND CONSENTS

The following sets out the qualifications of the experts which have given their opinion and/or advice as contained in this circular:

Name	Qualification
Opus Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the Independent Financial Adviser
ZhongHe Appraisal Co., Ltd.* (中和資產評估有限公司)	a qualified PRC valuer, the Independent Valuer
Moore Stephens CPA Limited	Certified Public Accountants

As at the Latest Practicable Date, each of the above experts:

(a) did not have any shareholding, direct or indirect, in any members of the Group or any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

(b) did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2020 (being the date to which the latest published audited financial statements of the Group were made up); and

(c) had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name and its letter in the form and context in which they respectively appear.

The letter and recommendation from each of the above experts is given as of the date of this circular for incorporation herein.

10. 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.

11. 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 2018, 2019 and 2020;

(c) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in this circular;

(d) the letter of advice from Opus Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out in this circular;

(e) the unaudited financial information of the Target Group for the three years ended 31 December 2018, 2019 and 2020, the text of which is set out in Appendix II to this circular;

(f) the report from Moore Stephens CPA Limited in relation to the unaudited pro forma financial information of the Group, the text of which is set out in Appendix III to this circular;

(g) the letters on profit forecast issued by Moore Stephens CPA Limited and Opus Capital, the texts of which are set out in Appendices V and VI to this circular;

(h) the Valuation Report, the summary of which is set out in Appendix IV to this circular;

(i) the written consent referred to in the paragraph headed "Experts and Consents" in this appendix;

(j) the First Capital Injection Agreement;

(k) the Second Capital Injection Agreement;

(l) the Supplemental Agreement;

(m) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix; and

(n) this circular.

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)

NOTICE OF EGM

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**EGM**") of Yunnan Water Investment Co., Limited* (雲南水務投資股份有限公司) (the "**Company**") will be held at 10:00 a.m. on Tuesday, 13 July 2021 at Conference Room 5th Floor, Yunnan Water, 2089 Haiyuan Bei Road, Gaoxin District, Kunming, Yunnan Province, the PRC to consider and, if thought fit, approve the following resolutions of the Company:

SPECIAL RESOLUTIONS

"**THAT**:

(a) the Second Capital Injection Agreement and the Supplemental Agreement (as defined in the circular of the Company dated 25 June 2021, collectively, the "**Agreements**") and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any one director of the Company be and is hereby authorised for and on behalf to perform all such acts and things and execute all documents as he/ she/ they consider necessary, desirable or expedient to effect and implement the Agreements and the transactions contemplated thereunder."

By order of the Board
Yunnan Water Investment Co., Limited*
Li Bo
Chairperson

Kunming, the PRC
25 June 2021

As at the date of this notice, the executive Directors are Mr. Yu Long (Vice-chairman) and Ms. Ling Hui, the non-executive Directors are Ms. Li Bo (Chairperson), Mr. Dai Richeng, Mr. Chen Yong and Mr. Liu Hui, and the independent non-executive Directors are Mr. Liu Shuen Kong, Mr. Zhong Wei and Mr. Zhou Beihai.

Notes:

(1) Pursuant to the Listing Rules, voting on all resolutions at a general meeting shall be by way of poll. The poll results of the EGM will be published on the websites of the Stock Exchanges and the Company in accordance with the requirements of the Listing Rules.

(2) For the purpose of ascertaining eligibility to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 6 July 2021 to Tuesday, 13 July 2021 (both dates inclusive) during which registration for transfer of shares will be suspended. Holders of H Shares who intend to attend and vote at the EGM shall deliver all transfer forms together with the relevant share certificates to the Company's H Share registrar in Hong Kong, Tricor Investor Services Limited, at or before 4:30 p.m. on Monday, 5 July 2021.

(3) Any Shareholder who is entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote on his/her behalf. A proxy needs not be a Shareholder. If the Shareholder appoints more than one proxy, his/her proxies may only vote by poll.

(4) The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorized in writing. If the Shareholder is a legal entity, then the relevant appointing document must be either under seal or under the hand of its director or attorney duly authorized. If the instrument appointing a proxy is signed by a person duly authorized by the Shareholder, the powers of attorney or other instruments of authorization shall be notarized.

(5) The proxy form together with the power of attorney or other authorization documents, if any, must be delivered to the secretariat of the Board located at the principal place of business of the Company in the PRC (for holders of Domestic Shares) or the Company's H Share registrar in Hong Kong, Tricor Investor Services Limited (for holders of H Shares) not later than 24 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof (as the case may be) in order to be effective.

(6) The H Share registrar of the Company in Hong Kong is Tricor Investor Services Limited and its address and contact information are as follows:

 54th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong
 Tel: (+852) 2980 1333
 Fax: (+852) 2810 8185

(7) The address and contact information of the principal place of business of the Company in the PRC are as follows:

 Principal place of business in the PRC:
 Yunnan Water, 2089 Haiyuan Bei Road, Gaoxin District, Kunming, Yunnan Province, the PRC

 Contact information:
 Yunnan Water, 2089 Haiyuan Bei Road, Gaoxin District, Kunming, Yunnan Province, the PRC
 Contact person: Ms. Guo Jia
 Tel: (+86) 871 6720 9927
 Fax: (+86) 871 6720 3907

(8) Pursuant to the Articles of Association, for joint registered Shareholders consisting of two or more persons, only the Shareholder whose name appear first on the register of members of the Company is entitled to receive this notice, attend the EGM and exercise the entire voting rights conferred by the relevant Shares, and this notice shall be deemed to have served all such joint registered Shareholders.

(9) The EGM is expected to last for no more than half a day. Shareholders who attend the EGM in person or their proxies shall be responsible for their own travelling and accommodation expenses. Shareholders or their proxies who attend the EGM must produce their identity documents for identification.

* *For identification purposes only*