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Kunming Dianchi Water Treatment Co., Ltd.
昆明滇池水务股份有限公司

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 3768)

**DISCLOSABLE TRANSACTION
IN RELATION TO THE ACQUISITION OF 100% EQUITY
INTEREST IN HONGYU WATER**

The Board is pleased to announce that on 18 September 2017 (after trading hours), the Company, Hongyu Thermal Power, Hongyu Water, Zhuji Environmental Protection and Huang Weifei have entered into a Share Transfer Agreement, pursuant to which the Company has conditionally agreed to acquire, and Hongyu Thermal Power has conditionally agreed to sell the 100% equity interest in Hongyu Water for the Consideration of RMB126,900,000.

Upon Completion of the Acquisition, Hongyu Water will become a wholly-owned subsidiary of the Company and its financial results, assets and liabilities will be incorporated into the Group.

As one or more of the applicable percentage ratio(s) of the Acquisition exceed 5% but are less than 25%, the Acquisition constitutes a disclosable transaction of the Company under Chapter 14 of the Listing Rules, and is subject to the reporting and announcement requirements.

BACKGROUND

The Board is pleased to announce that on 18 September 2017 (after trading hours), the Company, Hongyu Thermal Power, Hongyu Water, Zhuji Environmental Protection and Huang Weifei have entered into a Share Transfer Agreement, pursuant to which the Company has conditionally agreed to acquire, and Hongyu Thermal Power has conditionally agreed to sell the 100% equity interest in Hongyu Water for the Consideration of RMB126,900,000.

Upon completion of the Acquisition, Hongyu Water will become a wholly-owned subsidiary of the Company and its financial results, assets and liabilities will be incorporated into the Group.

DETAILS OF THE SHARE TRANSFER AGREEMENT

The principal terms of the Share Transfer Agreement are summarized as follows:

Date	18 September 2017 (after trading hours)
Parties	(i) The Company (as the Purchaser); (ii) Hongyu Thermal Power (as the Vendor); (iii) Hongyu Water (as the Target Company); (iv) Zhuji Environmental Protection (as the shareholder of the Vendor); and (v) Huang Weifei (as the guarantor)

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Hongyu Thermal Power, Hongyu Water, Zhuji Environmental Protection and Huang Weifei were independent third parties of the Company and its connected persons as at the date of this announcement.

Equity interest to be acquired	The 100% equity interest in Hongyu Water, being the subject which the Company has conditionally agreed to acquire and Hongyu Thermal Power has conditionally agreed to sell.
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Consideration	The Consideration shall be RMB126,900,000.
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Basis of determining the Consideration	The Consideration is determined on arm's length basis between the Company and Hongyu Thermal Power, with reference to evaluation of the 100% equity interest in Hongyu Water by an independent third-party valuation institution as at 30 April 2017 of RMB156,900,000, and after deducting the estimated rectification costs of RMB30,000,000 incurred by the rectification of the sewage treating techniques of Hongyu Water. If the final rectification costs determined by an independent third-party auditor jointly appointed by the Purchaser and Vendor is less than RMB30,000,000, the Company shall make payment to Hongyu Thermal Power in an amount equal to the difference between the final rectification costs and RMB30,000,000.
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Payment terms

1. The Company shall pay RMB50,760,000, representing 40% of the Consideration, to Hongyu Thermal Power within 7 Business Days from the date when the Share Transfer Agreement is entered into (“**First Tranche Consideration**”);
2. The Company shall pay RMB63,450,000, representing 50% of the Consideration upon the fulfillment of the following four conditions precedent in the order and within the time frame as specified below (“**Second Tranche Consideration**”):
 - (1) The Company makes the first tranche payment of Consideration (subject to the bills issued by the bank);
 - (2) Hongyu Thermal Power fully pays off the debts of Hongyu Water within 10 Business Days upon the payment of the First Tranche Consideration by the Company;
 - (3) Within 3 Business Days upon Hongyu Thermal Power fully pays off the debts of Hongyu Water, Hongyu Thermal Power shall transfer the financials (subject to the list of transfer finally confirmed by the signature of both parties) to the Company and the Hongyu Thermal Power shall transfer the titles to all assets associated with the Project(s) (as defined below) to Hongyu Water at its own costs; Hongyu Water shall be operated by the Company upon the financial transfer; the incomes arising there from shall be owned by the Company; and
 - (4) Within 10 Business Days after Hongyu Thermal Power transfers 100% equity interest in Hongyu Water to the Company and the registration of change with industrial and commercial authorities is completed.
3. Within 10 Business Days after the Company pays the Second Tranche Consideration, Hongyu Thermal Power pledges the real estates in the office and living area held by it to the Company as security, and within 10 Business Days upon the completion of registration procedure for the pledge, the Company shall pay RMB12,690,000, representing the remaining 10% of the Consideration (“**Third Tranche Consideration**”).

Source of funds

The Consideration will be paid by the Company with its own funds and bank loans.

Conditions precedent

Under the Share Transfer Agreement, the following conditions precedent shall be fulfilled prior to the signing of the Share Transfer Agreement:

1. The Acquisition under the Share Transfer Agreement and the Project Exclusive Concession Right (as defined as below) of Hongyu Water are in compliance with the laws and regulations of the PRC and relevant provisions of the policies implemented at the place of the transfer of the equity interest (Liuyang City, Hunan Province, the PRC);
2. Relevant procedures for approval of the Acquisition and the Project Exclusive Concession Right with competent authorities of the PRC (including but not limited to the local government, urban management authorities, industrial and commercial authorities at the place of the Project(s) and Hongyu Water) have been completed;
3. The Acquisition under the Share Transfer Agreement and Project Exclusive Concession Right have been approved by the Company and relevant authorities of Hongyu Thermal Power, and are in compliance with the provisions of the memorandum of association of the Company and Hongyu Thermal Power;
4. Written confirmation/consent for the matters such as the Acquisition under the Share Transfer Agreement and the Project Exclusive Concession Right have been obtained from the grantor of the Project Exclusive Concession Right (Liuyang Municipal People's Government); or approvals or agreements otherwise made or signed by the grantor of the Project Exclusive Concession Right (Liuyang Municipal People's Government) and recognized by both the Vendor and the Purchaser, which relate to the Acquisition under the Share Transfer Agreement and the Project Exclusive Concession Right;
5. The Acquisition referred to in the Share Transfer Agreement has been approved in writing by the creditor(s) of Hongyu Water and as at the date of signing the Share Transfer Agreement, no pledge has been made in respect of and there is no other restriction on the right of collecting wastewater treatment fees for the Project(s) of Hongyu Water. Hongyu Water has no external obligation for guarantee;
6. Hongyu Thermal Power has not breached Hongyu Thermal Power's obligations under the Share Transfer Agreement and Hongyu Thermal Power has not breached any statement, guarantee and undertaking it has made.

In the event that the above conditions precedent are failed to be fulfilled and agreement on change of the same cannot be reached, or in the event that any statement, guarantee and undertaking and financial statements or audit report is untrue, the Purchaser has the right of terminating the Share Transfer Agreement any time after the signing of the same.

Guarantees

1. Hongyu Thermal Power shall supplement the Company with revenue amount as calculated based on the difference between the actual amount of water treated by Hongyu Water and the that calculated based on 16,000 m³/d for the two years of 2018 and 2019 (calculated by 300 days per year, (1) calculated by exercise water price minus RMB0.3/m³ before water price reform; (2) based on the exercise water price, adding the costs of auditing by the third party, and minus RMB0.3/m³ after the reform and before the government approval; (3) calculated by approved water price minus RMB0.3/m³ after the reform and after the government approval), which shall subject to annual settlement and the shortfall of which shall be supplemented in cash by Hongyu Thermal Power.
2. Due to the process upgrade and renovation of Hongyu Water, the processing costs are expected to increase by RMB0.53/m³ (the final increase in the costs examined and approved by the price management authorities shall prevail). Hongyu Thermal Power shall be responsible for coordinating with the Liuyang Municipal People's Government (瀏陽市人民政府) to raise the price of wastewater treatment based on the existing water price (on the basis of RMB3.15/m³) and the final increase in the costs after the price adjustment of wastewater treatment examined and approved by the price department shall prevail.

If the government fails to complete the water tariff adjustments, the cost increased as a result of process innovation of Hongyu Water shall be approved and determined by the third auditing unit jointly entrusted by both of the Purchaser and the Vendor for estimating the water tariff receivable of Hongyu Water. Before government document on tariff adjustment was approved, the losses of Hongyu Water shall be calculated by the unit price at the difference between the aforesaid estimated water tariff and the water tariff charged by Hongyu Water, which was agreed by both of the Purchaser and the Vendor, and the aforesaid losses shall be paid to the Company in cash by Hongyu Thermal Power, with a cycle counts at semi-annually up to the date of issuance of the government document on tariff adjustments or actual implementation of new water tariff, whichever is later.

Completion	<p>Completion will take place on the date on which the registration of change with industrial and commercial authorities is completed.</p> <p>Hongyu Thermal Power holds 100% equity interest in Hongyu Water immediately before the Completion. Upon Completion of the Acquisition, Hongyu Water will become a wholly-owned subsidiary of the Company and its financial results, assets and liabilities will be incorporated into the Group.</p>
Miscellaneous	<p>Zhuji Environmental Protection and Huang Weifei shall perform the full obligations and the associated responsibility to guarantees under the Share Transfer Agreement and the term of guarantee shall be the date of fulfillment of the rights and obligations under the Share Transfer Agreement undertaken by Hongyu Thermal Power and Zhuji Environmental Protection. Where Hongyu Thermal Power failed to coordinate with the government to obtain the relevant approvals as agreed under the Agreement, the Agreement shall be invalid or the Company shall be unable to achieve the purpose of the Acquisition, all liabilities of which shall be undertaken by Zhuji Environmental Protection, Hongyu Thermal Power and Huang Weifei for the Company and Hongyu Water.</p>

PROFIT FORECAST

The valuation of the 100% equity interest in Hongyu Water under the Share Transfer Agreement is prepared under the income based approach.

The valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules. Accordingly, the Company will make further profit forecast announcement(s) in compliance with the requirements of Rule 14.60A and 14.62 of the Listing Rules.

INFORMATION ON HONGYU WATER

Hongyu Water is a limited liability company incorporated in the PRC on 21 April 2016 with a registered capital of RMB86,000,000. Its principal business scope includes running water production and supply; wastewater treatment and reclamation. Hongyu Water is wholly-owned by Hongyu Thermal Power as at the date of this announcement and immediately before the Completion. Based on the management account of Hongyu Water, the total assets and net asset value of Hongyu Water as at 31 December 2016 were RMB87,886,283.90 and RMB85,747,130.06, respectively, and the net losses of Hongyu Water as at 31 December 2016 was RMB827,306.00.

INFORMATION OF OTHER PARTIES

The Company

The Company is a leading municipal wastewater treatment and reclaimed water supply services provider in Yunnan Province, the PRC, an integrated water-related services (including running water supply service) provider and a core enterprise implementing the PRC's strategic goal to treat pollutants at Dianchi Lake.

Hongyu Thermal Power

Hongyu Thermal Power is a limited liability company incorporated in the PRC which principally engaged in coal power business, electricity supply, heat production and supply. Hongyu Thermal Power is wholly-owned by Zhuji Environmental Protection as at the date of this announcement.

Zhuji Environmental Protection

Zhuji Environmental Protection is a limited liability company incorporated in the PRC which principally engaged in the development, design, production and sale of environmental protection equipment and machinery parts, mechanical appliances as well as the production and sale of hardware accessories and sheet metal. Hongyu Water is wholly-owned by Huang Weifei as at the date of this announcement.

Huang Weifei

Huang Weifei, a China citizen, owns 100% equity interest in Zhuji Environmental Protection as at the date of this announcement and hence is an ultimate beneficial owner of Hongyu Water.

REASONS FOR AND BENEFITS OF THE ACQUISITION

Hongyu Water has been engaging in the investment and construction on the wastewater treatment factory and industrial water supply factory at the production base for fireworks materials in Liuyang City (respectively and collectively, the “**Project(s)**”). The Liuyang Municipal People's Government has agreed to grant Hongyu Water exclusive concession rights for occupation, operation, maintenance and transfer of infrastructure projects, pursuant to which Hongyu Water can provide wastewater treatment services and industrial water supply services under agreed terms and receive wastewater treatment fees and industrial water supply fees (“**Project Exclusive Concession Right**”). On 6 November 2016, Hongyu Water entered into the BOO Exclusive Concession Right Agreement on the Industrial Water Works Engineering Project for the Recycled Paper Base at Dayao Town, Liuyang City (《瀏陽市大瑤鎮再生紙基地工業水廠工程項目BOO特許經營合同》) and the BOO Exclusive Concession Right Agreement on the Wastewater Treatment Works Engineering Project for the Paper Production Industrial Base at Dayao Town, Liuyang City (《瀏陽市大瑤造紙基地工業基地污水處理廠工程項目BOO特許經營合同》) with The Liuyang Municipal People's Government, respectively.

- (a) The Company will make its first foray to the permanent market operation projects through the Acquisition and engage in industrial wastewater treatment projects for the first time. The acquisition of those projects will enhance the Company's capability to operate industrial wastewater works;
- (b) The Acquisition can expand the business scope and market share of the Company, and enhance influence and awareness of the Company, which is conducive to the coordinated development of Jiangsu, Zhejiang, Anhui and Hunan markets;

- (c) The Acquisition is in line with the investment direction and strategic layout of the Company’s principal business, and thus can foster new point of profit growth;
- (d) Such projects enable the Company to compete with more powerful domestic water companies through enlarged wastewater treatment operation in Hunan, which will impose vital strategic importance and improve the company’s operation and management standards.

After taking the above reasons into account, the Board considered that the terms of the Share Transfer Agreement and the Acquisition are on normal commercial terms, and are fair and reasonable and in the interests of the Company and its shareholders as a whole.

IMPLICATIONS OF THE LISTING RULES

As one or more of the applicable percentage ratio(s) in respect of the Acquisition exceed 5% but are less than 25%, the Acquisition constitutes a disclosable transaction of the Company under Chapter 14 of the Listing Rules, and is therefore subject to the reporting and announcement requirements.

DEFINITIONS

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

“Acquisition”	the acquisition of the 100% equity interest in Hongyu Water by the Company from Hongyu Thermal Power in accordance with the terms and conditions of the Share Transfer Agreement
“Board”	the board of Directors
“Company”	Kunming Dianchi Water Treatment Co., Ltd. (昆明滇池水務股份有限公司), a joint stock company incorporated in the PRC with limited liability on 23 December 2010, and its H Shares are listed on the Stock Exchange (stock code: 3768)
“Completion”	completion of the Acquisition
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration in the sum of RMB126,900,000 payable by the Company to Hongyu Co-Generation Power for the Acquisition
“Directors”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Hongyu Thermal Power”	Liuyang Hongyu Thermal Power Co., Ltd. * (瀏陽市宏宇熱電有限公司), a limited liability company incorporated in the PRC
“Hongyu Water”	Liuyang Hongyu Water Treatment Co., Ltd. * (瀏陽市宏宇水務有限公司), a limited liability company incorporated in the PRC which is wholly-owned by Hongyu Thermal Power as at the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented and otherwise modified from time to time
“PRC” or “China”	the People’s Republic of China, excluding, for the purpose of this announcement only, Hong Kong, Macau Special Administrative Region, and Taiwan region
“RMB”	Renminbi, the lawful currency of the PRC
“Share Transfer Agreement”	the share transfer agreement entered into among the Company, Hongyu Thermal Power, Hongyu Water, Zhuji Environmental Protection and Huang Weifei on 18 September 2017 with respect to the Acquisition
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiaries”	has the meaning ascribed to it under the Listing Rules
“Zhuji Environmental Protection”	Zhuji Hongyu Environmental Protection Equipment Co. Ltd. * (諸暨宏宇環保設備有限公司), a limited liability company incorporated in the PRC
“%”	per cent.

By order of the Board
Kunming Dianchi Water Treatment Co., Ltd.
Chairperson
Guo Yumei

Kunming, the PRC, 18 September 2017

As at the date of this announcement, the Board comprises Ms. Guo Yumei and Mr. Luo Yun, as executive Directors; Mr. Zeng Feng and Ms. Song Hong, as non-executive Directors; and Mr. Wong Man Chung Francis, Mr. Yin Xiaobing and Mr. He Xifeng, as independent non-executive Directors.

* For identification purpose only