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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)**

**VOLUNTARY ANNOUNCEMENT**  
**IN RELATION TO THE ACQUISITION OF 100% EQUITY**  
**INTEREST IN DEBEIAO WATER**

The Board is pleased to announce that on 20 September 2017, the Company, Zou Han Ping (鄒漢平), Weilai Luzhou, Sichuan Debeiao and Debeiao Water have entered into the Share Transfer Agreement, pursuant to which the Company has conditionally agreed to acquire 100% equity interest in Debeiao Water at the Consideration of RMB80,230,000. In addition, upon Completion of the Acquisition, the Company will provide Debeiao Water with a shareholder loan of RMB56,545,300 to settle the relevant liabilities of Debeiao Water.

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

Given that the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Acquisition (having taken into account the repayment of the Secured Loan) are less than 5%, the Acquisition does not constitute any notifiable transaction under Chapter 14 of the Listing Rules.

This announcement is made by the Company on a voluntary basis.

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## Share Transfer Agreement

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

Date of the Share Transfer Agreement 20 September 2017

Parties

- (i) The Company (as the purchaser);
- (ii) Zou Han Ping, Weilai Luzhou and Sichuan Debeiao (as the Vendor); and
- (iii) Debeiao Water (as the target company);

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Zou Han Ping, Weilai Luzhou, Sichuan Debeiao and Debeiao Water were independent third parties of the Company and its connected persons as at the date of this announcement.

Conditions precedent

The effectiveness and closing of the Acquisition is subject to the fulfilment of all of the conditions precedent agreed in the Share Transfer Agreement, which primarily include:

- 1) The Acquisition under the Share Transfer Agreement and the concession right and fee collection right of the Debeiao Project shall be subject to the relevant local laws and regulations and policies for the Share Transfer (Wutongqiao District, Leshan City, Sichuan Province, China).
- 2) The relevant filing, examination and approval procedures for the Acquisition as required by the relevant authorities of Wutongqiao District in Leshan City (including but not limited to the local government, the development and reform commission, housing and urban and rural construction departments, industrial and commercial administrative departments where Debeiao Water is located, etc.) are completed.
- 3) The Acquisition under the Share Transfer Agreement has been approved by the competent authority of the Company and the Vendor and is in line with the provisions of their Articles of Association.
- 4) The Acquisition has obtained the written confirmation/consent from the grantor of the concession right of the Debeiao Project, namely, the People's Government of Wutongqiao District, Leshan City or its authorized institutions; or the permit or agreement on the Acquisition under the Share Transfer Agreement, which was otherwise issued or signed by the grantor and recognized by all parties to the agreement.

- 5) The real estate registration certificate of the Debeiao Project under the Share Transfer Agreement has been applied for and obtained, and the related legal proceedings involving Debeiao Water have been withdrawn.
- 6) Prior to the Completion of the Acquisition, Debeiao Water shall pay the social insurance for all employees, sign labor contracts and improve the labor and employment system. It shall not hire or dismiss any key employees, increase or undertake to increase the wages, salaries, compensation, bonuses, incentive payments, pensions or other benefits payable to their employees.
- 7) Except for the existing pledged equity of Debeiao Water and other encumbrances that were created, Debeiao Water has not disposed of its principal assets directly or indirectly in any way and has not incurred or assumed any material debts (based on the financial audit report of Debeiao Water issued by a third party as of 30 June 2017 and the Vendor shall bear in full the amount of total debt and liabilities in excess of the amount as disclosed in the audit report).
- 8) Prior to the Completion of the Acquisition, there was no material adverse change in the assets, operations or financial positions of Debeiao Water and there was not any form of profit distribution (subject to the audit and evaluation report).
- 9) As the final audit of government project has not yet been finalized for the Debeiao Project, based on actual construction work amount, the Vendor and Debeiao Water negotiated with the construction units of the Debeiao Project and determined the cap for the settlement price of the project audit to be RMB19,169,132, which was agreed by all parties. The Vendor has undertaken that the total project payment shall not exceed the cap.

If the aforesaid conditions precedent are not fulfilled and the parties fail to agree on the changes of such conditions, the Company is entitled to terminate the Share Transfer Agreement.

Interest to be acquired

100% equity interest in Debeiao Water.

Consideration and basis of determination

The parties agreed that the valuation of net asset of the entire equity interest of Debeiao Water, i.e., RMB80,230,000, as at the Benchmark Date (i.e., 30 June 2017) shall be the Consideration for the entire equity interest of Debeiao Water transferred by the Vendor to the Company.

On the Benchmark Date, Debeiao Water had external debts amounted to RMB56,545,300 (including the Secured Loan that was secured by the entire equity interest of Debeiao Water by the Vendor). The Consideration of the Acquisition does not include the debt of Debeiao Water as of the Benchmark Date. The parties agreed that the debt of Debeiao Water incurred prior to the Benchmark Date shall be borne by Debeiao Water upon the Completion of the Acquisition, whereas the debt incurred between the Benchmark Date and the date of transfer (the commencement date of concession period as designated by the government) shall be borne by the Vendor.

Payment of the Consideration

- 1) The Vendor and Debeiao Water undertake and actively coordinate with the Borrower of the Secured Loan in completing the discharge of the pledge on the entire equity interest of Debeiao Water after the execution of the Share Transfer Agreement. The Company shall deposit RMB32,092,000, representing 40% of the Consideration, to the joint account established by the Company and the Vendor within three working days from confirming the completion of the above formalities. A portion of the payment will be used to advance the Secured Loan.
- 2) Upon the discharge of the above pledge by the Borrower of the Secured Loan and within five working days from the payment of the first instalment of the Consideration by the Company, the Vendor shall assist the Company in completing the change of business registration for the Acquisition. Within three working days from confirming the completion of the above formalities, the Company shall pay RMB24,069,000, representing 30% of the Consideration, to the Vendor.
- 3) The Acquisition will be completed upon completion of the aforesaid formalities for the change of business registration. Following the Completion of the Acquisition, the Company shall provide the shareholder loan in an amount of RMB56,545,300 to Debeiao Water for the repayment of its related debts (including the portion of the first installment of Consideration used to advance the Secured Loan).

- 4) Within 60 days from the effectiveness of the Share Transfer Agreement, the Vendor shall transfer the Debeiao Project (including but not limited to physical items, warrants, approvals, contracts, vouchers and other information relating to the Debeiao Project) to the Company and the Vendor shall transfer all the financial information and vouchers of Debeiao Water to the Company. Debeiao has entered into the official trial period for normal operation for two months and meet the standards of water quality. Within 7 working days after the above requirements have been achieved, the Company shall pay RMB16,046,000 to the Vendor, which representing 20% of the Consideration.
- 5) Within 7 working days after receipt of the designated project payment from the local government by Debeiao Water, the Company shall pay RMB8,023,000 to the Vendor, presenting the remaining 10% of the Consideration.

The above Consideration shall be financed by the internal resources of the Company.

#### Contingency liabilities

As the final audit of government project has not yet been finalized for the Debeiao Project, based on actual construction work amount, the Target Company negotiated with the construction units of the project and determined the cap for the settlement price of the project audit to be RMB19,169,132, which was agreed by all parties. In the case where the adjustment of working scope and settlement price of construction units leads to the change of project payments to such units, the Vendor shall ensure that the total amount of the unpaid project payables shall not exceed the cap of settlement price after the Completion of the Acquisition. Subject to the final audit of government project, the Target Company will settle the payment within the cap and the Vendor will pay the amount in excess of the cap. If the Vendor fails to make the payment, the Company shall have the right to deduct the amount from the last instalment of the share purchase price. The Company and the Target Company are entitled to make claims against the Vendor for any shortfall.

#### Handover of production operation

The Vendor shall bear the cost of production and operation and sewage treatment services, and the debt, liability, costs of equipment maintenance, modification and replacement and other expenses incurred between the transitional period of production and operation, which commences from the Benchmark Date and the date of official trial operation. For the proportion of sewage treatment fee paid by the government subsequent to the transitional period and collected by the Target Company with the confirmation of the Company on behalf of the Vendor, the tax incurred from such proportion shall be borne by the Vendor.

## **INFORMATION ON DEBEIAO WATER**

Debeiao Water is a company incorporated in the PRC with limited liability on 11 August 2014 with a registered capital of RMB70,000,000. Its main business scope is investment in water supply, sewage treatment and municipal projects. Prior to the Acquisition, it was owned as to 90%, 9% and 1% by Zou Han Ping, Weilai Luzhou and Sichuan Debeiao respectively. The company has obtained the concession rights of seven sewage treatment plant projects in Wutongqiao District, Leshan City, Sichuan Province.

According to the financial statements prepared under the Chinese Accounting Standards for Business Enterprises, the total assets and net assets of Debeiao Water were RMB 117,393,000 and RMB 60,847,700 as of 30 June 2017. Given that the Debeiao Project is still in the stage of trial operation, the company has not yet generated income since its inception.

## **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.

### **Sichuan Debeiao**

Sichuan Debeiao is a company incorporated in the PRC with limited liability. The main business scope is environmental engineering, installation of mechanical and electrical equipment, engineering design, property management, training on occupational skills, real estate development, manufacture, processing and maintenance of mechanical and electrical equipment, wholesale and retail of commodity, import and export, commercial services, power generation.

### **Weilai Luzhou**

Weilai Luzhou is a company incorporated in the PRC with limited liability. The main business scope is building construction, municipal works, road works, water supply and hydropower construction, fire safety engineering, smart building construction, decoration construction, curtain wall construction, sports stadium and facility construction, greening works, historic building construction, steel structure construction, pipeline construction, mechanical and electrical installation, earthwork engineering, electricity transmission and transformation engineering, highway traffic engineering, metal windows and door construction, cement prefabrication engineering, installation of mechanical and electrical equipment, environmental engineering, river regulation, embankment construction, basic engineering of hydrology structure, communication engineering, telecommunication engineering, electricity engineering, foundation and infrastructure construction, ready-mixed concrete engineering, elevator installation, water-proof engineering, anticorrosion and thermal insulation engineering, professional contracting of scaffold attached to lift, installation of lifting equipment, bridge construction, tunnel construction, highway pavement construction, highway subgrade construction, dam construction, urban and street lighting engineering, specialized construction, engineering design, specialized design service, project management service, management of flood prevention facility.

## **Zou Han Ping (鄒漢平)**

Zou Han Ping, a Chinese citizen and a controlling shareholder of Debeiao Water prior to the Acquisition.

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

The Acquisition can expand the Group's water market in Sichuan Province, China, expand the Group's business scope and market share, enhance the Company's influence and visibility and meet the investment direction and strategic layout of the Group's principal business. Following the Completion of the Acquisition, the Company is expected to acquire new profit growth drivers, which will bring extra income and create a stable cash flow.

Taking into consideration of the above reasons, the Board is of the view 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**

Given that the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Acquisition (having taken into account the repayment of the Secured Loan) are less than 5%, the Acquisition does not constitute any notifiable transaction under Chapter 14 of the Listing Rules.

## **DEFINITIONS**

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

“Acquisition” or “Share Transfer ”	the acquisition of the entire equity interest of Debeiao Water by the Company from the Vendor in accordance with the terms and conditions of the Share Transfer Agreement
“Benchmark Date”	the benchmark date for the audit and valuation under the Acquisition, i.e., 30 June 2017
“Board”	the board of Directors
“Borrower of the Secured Loan”	the borrower of the Secured Loan
“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 RMB80,230,000 payable by the Company to the Vendor for the Acquisition
“Debeiao Water”	Leshan Debeiao Water Limited* (樂山德貝奧水務有限公司), a limited liability company incorporated in the PRC and owned as to 100% by the Vendor as at the date of this announcement
“Debeiao Project”	the seven sewage treatment plant projects in Wutongqiao District, Leshan City, Sichuan Province of which the concession rights have been obtained by Debeiao Water
“Directors”	the director(s) of the Company
“Weilai Luzhou”	Sichuan Weilai Luzhou Municipal Public Engineering Co., Ltd.* (四川未來綠洲市政公用工程有限公司), a limited liability company incorporated in the PRC
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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
“Secured Loan”	the loan in the principal amount of RMB 25,000,000 granted by an independent third party to Debeiao Water, which was secured by the entire equity interest of Debeiao Water held by the Vendor
“Share Transfer Agreement”	the share transfer agreement entered into among the Company, the Vendor and Debeiao Water on 20 September 2017 in relation to the Acquisition
“Sichuan Debeiao”	Sichuan Debeiao Environmental Technology Industrial Co., Ltd* (四川德貝奧環保科技實業有限公司), a limited liability company incorporated in the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it under the Listing Rules



“Vendor”

Zou Han Ping, Sichuan Debeiao and Weilai Luzhou

“%”

per cent.

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

Kunming, the PRC, 20 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*