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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)

DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITION OF 100% EQUITY INTEREST IN HONGYU THERMAL POWER

The Board is pleased to announce that on 8 October 2018 (after trading hours), the Company, Hongyu Thermal Power, Zhuji Environmental Protection, Yang Zhiying and Huang Weifei have entered into the Share Transfer Agreement, pursuant to which the Company has conditionally agreed to acquire, and the Vendors have conditionally agreed to sell the total 100% equity interest in Hongyu Thermal Power for the Consideration of RMB41,402,600.

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

Taking into account the implications of Rules 14.22 and 14.23 of the Listing Rules, the Company has aggregated the Hongyu Water Acquisition and the Acquisition when calculating the applicable percentage ratios for the Transaction. As one or more of the applicable percentage ratio(s) after aggregation exceed 5% but are less than 25%, the Acquisition constitutes a discloseable 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 8 October 2018 (after trading hours), the Company, Hongyu Thermal Power, Zhuji Environmental Protection, Yang Zhiying and Huang Weifei have entered into the Share Transfer Agreement, pursuant to which the Company has conditionally agreed to acquire, and the Vendors have conditionally agreed to sell the total 100% equity interest in Hongyu Thermal Power for the Consideration of RMB41,402,600.

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DETAILS OF THE SHARE TRANSFER AGREEMENT

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

| | |
|---------|--|
| Date | 8 October 2018 (after trading hours) |
| Parties | (i) The Company (as purchaser); (ii) Zhuji Environmental Protection (as Vendor); (iii) Yang Zhiying (as Vendor); (iv) Hongyu Thermal Power (as target company); and (v) Huang Weifei (the <i>de facto</i> controller of Hongyu Thermal Power). |

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

| | |
|--|--|
| Subject matter to be transferred | A total of 100% equity interest in Hongyu Thermal Power, including 70% equity interest held by Zhuji Environmental Protection and 30% equity interest held by Yang Zhiying. |
| Consideration | A total of RMB41,402,600, including the payment of RMB28,981,800 to Zhuji Environmental Protection and the payment of RMB12,420,800 to Yang Zhiying. |
| Basis of determining the Consideration | The Consideration is determined on arm's length basis by the Parties, with reference to the value of RMB46,203,200 as appraised by an independent third party assessment agency for 100% equity interest in Hongyu Thermal Power as at 31 May 2018 by using the asset-based method. |
| Payment terms | The Consideration for this Acquisition will be paid in three tranches, and the payment to Zhuji Environmental Protection and Yang Zhiying in each tranche will be apportioned 70%:30%: 1. The Company shall pay RMB20,701,300, representing 50% of the Consideration, and the Vendors shall deliver all financial information and accounting documents of Hongyu Thermal Power to the Company within 7 business days from the signing date of the Share Transfer Agreement; |

2. Within 7 business days upon the payment of the first tranche Consideration, the Vendors shall complete the following matters, and the Company shall pay RMB8,280,500, representing 20% of the Consideration to the Vendors within 7 business days after confirmation of completion of such matters by the Company:
 - (1) the Vendors will change the name of the shareholder of the 100% equity interest in Hongyu Thermal Power from the Vendors to the Company, complete the relevant procedures for changing industrial and commercial registration record, and appoint the designated personnel of the Company as the legal representative of Hongyu Thermal Power; and
 - (2) the Vendors will deliver all assets of the existing projects, all operating rights and facilities, equipment and the production and operation related materials of Hongyu Thermal Power as mentioned in the Share Transfer Agreement to the Company.
3. The Company shall pay RMB12,420,800, representing 30% of the Consideration to the Vendors within 7 business days after the Vendors hand over the existing project of Hongyu Thermal Power in its entirety to the Company and such project runs normally for two months.

Treatment of debts of
Hongyu Thermal Power

- (1) As of 31 May 2018, the total amount of debts receivables of Hongyu Thermal Power was approximately RMB37.95 million and the total amount of debts payables was approximately RMB171.6 million, among which it owed a total debts of RMB56.34 million to Huang Weifei (“**Debts owed to Huang Weifei**”). Upon the completion of this Transaction, the repayment obligation for aforesaid debts payables shall be inherited by Hongyu Thermal Power acquired by the Company.
- (2) Hongyu Thermal Power has provided the income guarantee for its disposal of 100% equity interest in Hongyu Water to the Company (for details, please refer to the announcement of the Company dated 19 September 2017). In order to complete the acquisition, Huang Weifei agreed to use the Debts owed to Huang Weifei to guarantee (1) the liabilities for the difference of sewage treatment fee (temporarily about RMB14 million) for the years of 2018 and 2019 payable by Hongyu Thermal Power to the Company; (2) that the Vendors and Huang Weifei will assist Hongyu Thermal Power to collect Hongyu Thermal Power’s debts receivables in a total amount of approximately RMB37.95 million.

- (3) Zhuji Environmental Protection and Huang Weifei (as the *de facto* controllers of Hongyu Thermal Power prior to the Completion of this Acquisition) are obliged to assist Hongyu Thermal Power to collect all the aforesaid debts receivables. Hongyu Thermal Power will pay for the Debts owed to Huang Weifei in the corresponding amount to the debts Hongyu Thermal Power manages to collect.
- (4) all contingent debts payables of Hongyu Thermal Power that were not included in the audit report before 31 May 2018 shall be borne by the Vendors, and all losses caused to the Company shall be compensated by the Vendors. The aforesaid debts payables and compensations shall be assumed by the Vendors within 5 business days after the notice of the Company.

Source of funds

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

Conditions precedent

Under the Share Transfer Agreement, the following conditions precedent shall be fulfilled within 5 business days following the signing of the Share Transfer Agreement:

1. the Acquisition and project exclusive concession right and tariff collection rights of Hongyu Thermal Power are in compliance with relevant the laws and regulations and the policies implemented at the place of the Acquisition (Liuyang City, Hunan Province, the PRC);
2. the relevant procedures for approval of the Acquisition with competent authorities of Liuyang City, Hunan Province, the PRC (including but not limited to the local government and industrial and commercial authorities at the place where the Hongyu Thermal Power is located) have been completed;
3. the contents of the Acquisition and project exclusive concession rights have been approved by the Company and relevant authorities of the Vendors, and are in compliance with the provisions of the Articles of Association of the Company and Zhuji Environmental Protection;
4. Hongyu Thermal Power has paid social insurance contributions for, and entered into labor contracts with all its employees, and improved its labor employment system. It shall not appoint or dismiss any key employees, increase or undertake to increase the wages, salaries, compensation, bonuses, incentives, pensions or other benefits payable to the employees.

In the event that the above conditions precedent failed to be fulfilled and agreement on change of the same cannot be reached by the parties, the Company has the right to terminate the Share Transfer Agreement, or may continue to await the achievements of the above conditions, but may still cancel the Share Transfer Agreement in writing without the obligation to pay the funds.

Transition period arrangement For the period from the evaluation benchmark date (i.e. 1 May 2018) to the date of completion of the registration of industrial and commercial changes for the Transaction, the Company shall have a bona fide management obligation for Hongyu Thermal Power and its assets. During the transition period, the proceeds from the project generated by Hongyu Thermal Power shall attribute to the Vendors, and the costs, expenses and expenses incurred shall be borne by the Vendors. On the day of the handover, parties will conduct a financial audit of Hongyu Thermal Power. If the assets value of Hongyu Thermal Power is lower than the assessed value in the audit and appraisal report, the Vendors shall make up any shortfall.

Completion Upon completion of the change in the industrial and commercial registration, the Acquisition will be completed.

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

INFORMATION ON HONGYU THERMAL POWER

Hongyu Thermal Power is a limited liability company incorporated in the PRC on 12 March 2008 with a registered capital of RMB30 million. Its principal business scope includes thermal power generation, power supply, thermal energy production and supply. As at the date of this announcement and immediately prior to the Completion, Hongyu Thermal Power is owned as to 70% by Zhuji Environmental Protection and 30% by Yang Zhiying, respectively. Its *de facto* controller is Huang Weifei. The audited financial information of Hongyu Thermal Power for the two financial years ended 31 December 2016 and 2017 and the five months ended 31 May 2018 is set out below:

| | For the year ended 31 December | | For the five |
|---|---------------------------------------|---------------|---------------------|
| | 2016 | 2017 | months ended |
| | (RMB) | (RMB) | 31 May 2018 |
| | | | (RMB) |
| Profit before tax (if loss, denoted as “-”) | 9,355,632.98 | 42,750,328.51 | 290,361.25 |
| Profit after tax (if loss, denoted as “-”) | 9,355,632.98 | 42,750,328.51 | -1,485,234.99 |

According to the management accounts of Hongyu Thermal Power, on 31 May 2018, the total assets and net assets of Hongyu Thermal Power were RMB191,740,579.64 and RMB20,143,157.40, respectively.

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.

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. Zhuji Environmental Protection is wholly-owned by Huang Weifei as at the date of this announcement.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The reasons for and benefits of the Acquisition are set out below:

1. the Acquisition of Hongyu Thermal Power can form a synergistic effect with the wastewater treatment plant operated by Hongyu Water, namely using deep-processed tail water produced by the wastewater treatment plant as the production water of its thermal power project, and thus extending the Company's industrial chain; also help to reduce the production and operation costs of the thermal power plant, increase the profits of steam sales, expand downstream industrial chain of wastewater treatment, improve the recycling efficiency of reclaimed water, form new profit growth points and stable cash flow and increase future earnings per share of the Company.
2. the Acquisition is in line with the "unitary domination with diversified development" strategic layout and development direction of the Company.
3. the Acquisition is favorable for expanding the Company's business scope and market share, promoting the synergetic development of the Company's markets in Jiangsu province, Zhejiang province, Anhui province and Hunan province, and enhancing the Company's impact and brand awareness.
4. the Acquisition of Hongyu Thermal Power can achieve industrial synergies, namely utilizing the existing facilities of the thermal power plant and disposing over 30,000 tons of solid waste generated by more than 20 enterprises in the park (with an estimated income of appropriately RMB4 million), can help promote coordinated development of the park, form a circulation economy and achieve zero emissions, which is in line with the national environmental protection policies of developing green circulation economy.
5. the Acquisition is expected to have sound cash flow, which helps to carry out financing, boost investors' confidence and enhance the share price of the Company.

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

Taking into account the implications of Rules 14.22 and 14.23 of the Listing Rules, the Company has aggregated the Hongyu Water Acquisition and the Acquisition. As one or more of the applicable percentage ratio(s) after aggregation exceed 5% but are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules, and is subject to the reporting and announcement requirements.

DEFINITIONS

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

| | |
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| “Acquisition” | the acquisition of 100% equity interest in Hongyu Thermal Power by the Company from the Vendors in accordance with the terms and conditions of the Share Transfer Agreement |
| “Board” | the board of Directors of the Company |
| “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 RMB41,402,600 payable by the Company to the Vendors for the Acquisition |
| “Directors” | the director(s) of the Company |
| “Group” | the Company and its subsidiaries |
| “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, which is owned as to 70% and 30% by Zhuji Environmental Protection and Yang Zhiying, respectively, as at the date of this announcement |
| “Hongyu Water” | Liuyang Hongyu Water Treatment Co., Ltd.* (瀏陽市宏宇水務有限公司, currently known as Liuyang Dianchi Water Treatment Co., Ltd.* (瀏陽滇池水務有限公司)), a limited liability company incorporated in the PRC |

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| “Hongyu Water Acquisition” | the transaction relating to acquisition of Hongyu Water pursuant to the Company’s equity transfer agreement with Hongyu Thermal Power, Hongyu Water, Zhuji Environmental Protection and Huang Weifei entered into on 18 September 2017. For details, please refer to the announcements of the Company dated 18 September 2017, 11 October 2017 and 17 October 2017 |
| “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, Zhuji Environmental Protection, Yang Zhiying and Huang Weifei on 8 October 2018 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 |
| “Vendor(s)” | Zhuji Environmental Protection and/or Yang Zhiying |
| “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, 8 October 2018

As at the date of this announcement, the Board comprises Ms. Guo Yumei and Mr. Luo Yun, as executive Directors; Ms. Ma Ce and Ms. Song Hong, as non-executive Directors; and Mr. Yin Xiaobing and Mr. He Xifeng, as independent non-executive Directors.

* For identification purpose only