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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)

FURTHER ANNOUNCEMENT ON THE ACQUISITION OF 100% EQUITY INTEREST IN HONGYU THERMAL POWER

Reference is made to the announcement (the “**Announcement**”) of Kunming Dianchi Water Treatment Co., Ltd. (the “**Company**”) dated 8 October 2018 and titled “Discloseable Transaction in Relation to the Acquisition of 100% Equity Interest in Hongyu Thermal Power”. Unless the context requires otherwise, terms used herein shall have the same meanings as those defined in the Announcement.

As disclosed in the Announcement, both Hongyu Thermal Power’s profit/loss before and after tax were RMB9,355,632.98 and RMB42,750,328.51 for the years ended 31 December 2016 and 2017, respectively; and Hongyu Thermal Power’s profit/loss before and after tax for the first five months of 2018 were RMB290,361.25 and RMB(1,485,234.99), respectively.

The fluctuation in Hongyu Thermal Power’s net profits in 2016, 2017 and the first five months of 2018 was primarily attributable to:

- (1) the transfer of a subsidiary by Hongyu Thermal Power in 2017. In the fourth quarter of 2017, Hongyu Thermal Power transferred the entire equity interest in Liuyang Hongyu Water Co., Ltd. (瀏陽市宏宇水務有限公司) to the Company and recorded a non-recurring revenue of RMB40,692,293.10. As a result, Hongyu Thermal Power’s net profits for 2017 are significantly higher than those for 2016 and the first five months of 2018; and
- (2) certain accounting adjustments and advance payment in 2018. Hongyu Thermal Power recognized an operating profit of RMB4,072,842.42 for the first five months of 2018. However, its net profit substantially decreased due to (a) increase in bad debt reserve of RMB4,654,703.44, which was not made in 2016 and 2017, as there was no sign of decrease in Hongyu Thermal Power’s value in these two years and bad debt reserve was therefore not required under its accounting policies; (b) advance payment for equipment and service fee of RMB538,900.00; and (c) profit adjustment and reduction for net non-operating income and expenditure of RMB364,473.97, comprising certain unrecoverable trade receivable, donation, accounts uncollectible, which were written off.

In addition, Hongyu Thermal Power had no tax payable for 2016 and 2017 as a result of tax offset for losses incurred in previous years. Pursuant to Article 28 of the Detailed Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Enterprise Income Tax (《中華人民共和國企業所得稅暫行條例實施細則》), losses incurred by a company in a previous tax year can be used to offset taxable income of the next 5 years on a successive basis. Prior to 2016, Hongyu Thermal Power carried a loss of RMB63,968,063.28, which is greater than the net profits of 2016 and 2017 in total. Therefore, Hongyu Thermal Power had no tax payable for 2016 and 2017.

Hongyu Thermal Power is principally engaged in the business of thermal power generation, power supply, thermal energy production and supply in Dayao Pulp and Paper Manufacturing Industrial Park in Liuyang (“**Dayao Industry Park**”). According to the audit report of Hongyu Thermal Power, the operating profits/loss of Hongyu Thermal Power (after deducting investment income, non-operating income and expenditure, as well as asset depreciation) for 2016, 2017 and the first five months of 2018 are RMB9,288,379.13, RMB(499,406.27) and RMB4,072,842.42, respectively. The operating loss in 2017 was due to the temporary suspension of business for rectification of certain paper manufacturing companies within the Dayao Industry Park. The operation of a majority of such companies has resumed after improving their production and environmental protection facilities in compliance with requests by the regulatory authorities and Hongyu Thermal Power had resumed heat supply to such companies in late 2017. Apart from this, the cash flow generated from Hongyu Thermal Power's operation has remained relatively stable throughout 2016 and the first five months in 2018.

As disclosed in the Announcement, it is expected that Hongyu Thermal Power will 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; and will also help reduce the production and operation costs of the thermal power plant, and increase the profits of steam sales. In addition, given that the clientele base of Hongyu Thermal Power and the demand of heat supply within the Dayao Industry Park are stable, the Company expects that Hongyu Thermal Power can generate stable and sound cash flow in the future.

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

Kunming, the PRC, 23 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.