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KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED

康達國際環保有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 6136)

DISCLOSEABLE TRANSACTIONS IN RELATION TO THE FINANCE LEASE AGREEMENTS

FINANCE LEASE AGREEMENTS

On 9 May 2020, the Lessees (each being an indirect wholly-owned subsidiary of the Company) entered into the Finance Lease Agreement 1 with Canton Risen, pursuant to which, among other things, Canton Risen agreed to acquire the ownership of Asset 1 from the Lessees for RMB60,000,000, which would then be leased back to the Lessees for their use and possession for a term of 5 years.

On 19 May 2020, the Lessees entered into the Finance Lease Agreement 2 and the Finance Lease Agreement 3 with Canton Risen, pursuant to which, among other things, Canton Risen conditionally agreed to acquire the ownership of Asset 2 and Assets 3 from the Lessees for RMB110,000,000 and RMB30,000,000 respectively, which would then be leased back to the Lessees for their use and possession for a term of 5 years.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios in respect of the transactions contemplated under the Finance Lease Agreement 1 and the Finance Lease Agreement 2 are more than 5% but less than 25%, the entering into of the Finance Lease Agreement 1 and the Finance Lease Agreement 2, on a standalone basis, constitutes a discloseable transaction of the Company and are subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

As the applicable percentage ratios in respect of the transactions contemplated under the Finance Lease Agreement 3 are less than 5%, the entering into of the Finance Lease Agreement 3, on a standalone basis, does not constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Since the contractual parties to the Finance Lease Agreements are the same and are all entered into within a 12 month period, the Finance Lease Agreements are required to be aggregated as a series of transactions pursuant to Rule 14.22 of the Listing Rules.

As the applicable percentage ratios in respect of the transactions contemplated under the Finance Lease Agreements, on an aggregated basis, are more than 5% but less than 25%, the entering into of the Finance Lease Agreements constitute a discloseable transaction of the Company and are therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

THE FINANCE LEASE AGREEMENTS

(1) Finance Lease Agreements 1

Date: 9 May 2020

Parties: (1) Canton Risen, as the lessor; and
(2) The Lessees, each being an indirect wholly-owned subsidiary of the Company.

Transfer of Asset 1 and consideration Canton Risen shall acquire the unencumbered ownership of Asset 1 from the Lessees on an “as-is” basis for RMB60,000,000 (equivalent to approximately HK\$65,700,000) in cash and, payable within 1 month from the date of the Finance Lease Agreement 1 to any of the Lessees as the Lessees may decide pursuant to both the Finance Lease Agreement 1 and the Incidental Documentation 1. The transfer agreement for the Finance Lease Agreement 1 was entered into between Canton Risen and the Lessees on the date of the Finance Lease Agreement 1, effecting the terms of the Finance Lease Agreement 1 in relation to the transfer of Asset 1 from the Lessees to Canton Risen above.

Such consideration amount was determined following arm’s length negotiations by the parties with reference to the original cost of Asset 1 of RMB73,257,638.17.

Lease period Canton Risen will lease back Asset 1 to the Lessees for their use and possession for a term of 5 years commencing from the day the consideration for the transfer of Asset 1 has been paid by Canton Risen.

Payments under the Finance Lease Agreement 1 In respect of the Finance Lease Agreement 1, the total amount of lease payments is approximately RMB75,968,610, comprising (a) the lease principal payment of RMB60,000,000; and (b) the aggregate lease interest and other fees and expenses under the Incidental Documentation 1 of approximately RMB15,968,610. Both the lease principal and the interest shall be payable every three months in twenty (20) installments during the lease period in which the first installment is expected to be payable on 18 July 2020.

The terms of the Finance Lease Agreement 1, including the lease principals, lease interests, and other fees and expenses under the Incidental Documentation 1, were determined after arm's length negotiations between the parties to the Finance Lease Agreement 1 with reference to the principal amount of the lease, the market interest rate, the average fair price of similar equipment and the amount of financing agreed to be provided by Canton Risen.

**Termination and
purchase option**

The Lessees may terminate the Finance Lease Agreement 1 provided that all outstanding amounts due thereunder and a compensation equivalent to 20 percent of the total outstanding lease interest amount as at the time of early termination have been settled by them. All payment obligations of the Lessees towards Canton Risen are joint and several, regardless of whether any of them may have actual possession and/or usage of Asset 1. At the end of the lease period or in the event of an early termination of the Finance Lease Agreement 1, subject to the settlement of all outstanding amounts due, the Lessees will have the right to purchase Asset 1 at a nominal purchase price of RMB100.

Guarantee deposit

The Lessees will pay an interest-free deposit of RMB1,200,000 to Canton Risen on the same day the consideration for the transfer of Asset 1 has been paid by Canton Risen to secure their payment obligations under the Finance Lease Agreement 1.

Pledges

Pursuant to the Incidental Documentation 1, although the ownership of Asset 1 shall be transferred to Canton Risen as lessor as part of the Finance Lease Agreement 1, Asset 1 is treated as security of payment obligations of the Lessees under the Finance Lease Agreement 1 and the Lessees may continue to utilize Asset 1 during the lease term.

(2) Finance Lease Agreements 2

Date: 19 May 2020

Parties: (1) Canton Risen, as the lessor; and
(2) The Lessees.

**Transfer of Asset 2
and consideration**

Canton Risen shall acquire the unencumbered ownership of Asset 2 from the Lessees on an “as-is” basis for RMB110,000,000 (equivalent to approximately HK\$120,010,000) in cash and, payable within 1 month from the date of the Finance Lease Agreement 2 to any of the Lessees as the Lessees may decide pursuant to the Finance Lease Agreement 2 and the Incidental Documentation 2. The transfer agreement for the Finance Lease Agreement 2 was entered into between Canton Risen and the Lessees on the date of the Finance Lease Agreement 2, effecting the terms of the Finance Lease Agreement 2 in relation to the transfer of Asset 2 from the Lessees to Canton Risen above.

Such consideration amount was determined following arm’s length negotiations by the parties with reference to the original costs of Asset 2 of RMB116,719,226.

Lease period

Canton Risen will lease back Asset 2 to the Lessees for their use and possession for a term of 5 years commencing from the day the consideration for the transfer of Asset 2 has been paid by Canton Risen.

**Payments under the
Finance Lease
Agreement 2**

In respect of the Finance Lease Agreement 2, the total amount of lease payments is approximately RMB139,275,785, comprising (a) the lease principal payment of RMB110,000,000; and (b) the aggregate lease interest and other fees and expenses under Incidental Documentation 2 of approximately RMB29,275,785. Both the lease principal and the interest shall be payable every three months in twenty (20) installments during the lease period in which the first installment is expected to be payable on 18 July 2020.

The terms of the Finance Lease Agreement 2, including the lease principals, lease interests, and other fees and expenses under Incidental Documentation 2, were determined after arm’s length negotiations between the parties to the Finance Lease Agreement 2 with reference to the principal amount of the lease, the market interest rate, the average fair price of similar equipment and the amount of financing agreed to be provided by Canton Risen.

**Termination and
purchase option**

The Lessees may terminate the Finance Lease Agreement 2 provided that all outstanding amounts due thereunder and a compensation equivalent to 20 percent of the total outstanding lease interest amount as at the time of early termination have been settled by them. All payment obligations of the Lessees towards Canton Risen are joint and several, regardless of whether any of them may have actual possession and/or usage of Asset 2. At the end of the lease period or in the event of an early termination of the Finance Lease Agreement 2, subject to the settlement of all outstanding amounts due, the Lessees will have the right to purchase Asset 2 at a nominal purchase price of RMB100.

Guarantee deposit

The Lessees will pay an interest-free deposit of RMB2,200,000 to Canton Risen on the same day the consideration for the transfer of Asset 2 has been paid by Canton Risen to secure their payment obligations under the Finance Lease Agreement 2.

Pledges

Pursuant to the Incidental Documentation 2, although the ownership of Asset 2 shall be transferred to Canton Risen as lessor as part of the Finance Lease Agreement 2, Asset 2 is treated as security of payment obligations of the Lessees under the Finance Lease Agreement 2 and the Lessees may continue to utilize Asset 2 during the lease term.

(3) Finance Lease Agreements 3

Date: 19 May 2020

Parties: (1) Canton Risen, as the lessor; and
(2) The Lessees.

**Transfer of Asset 3
and consideration**

Canton Risen shall acquire the unencumbered ownership of Asset 3 from the Lessees on an “as-is” basis for RMB30,000,000 (equivalent to approximately HK\$32,730,000) in cash and, payable within 1 month from the date of the Finance Lease Agreement 3 to any of the Lessees as the Lessees may decide pursuant to both the Finance Lease Agreement 3 and the Incidental Documentation 3. The transfer agreement for the Finance Lease Agreement 3 was entered into between Canton Risen and the Lessees on the date of the Finance Lease Agreement 3, effecting the terms of the Finance Lease Agreement 3 in relation to the transfer of Asset 3 from Lessees to Canton Risen above.

Such consideration amount was determined following arm's length negotiations by the parties with reference to the original cost of Asset 3 of RMB32,604,954.

Lease period

Canton Risen will lease back Asset 3 to the Lessees for their use and possession for a term of 5 years commencing from the day the consideration for the transfer of Asset 3 has been paid by Canton Risen.

Payments under the Finance Lease Agreement 3

In respect of the Finance Lease Agreement 3, the total amount of lease payments is approximately RMB37,984,305, comprising (a) the lease principal payment of RMB30,000,000 and (b) the aggregate lease interest and other fees and expenses under Incidental Documentation 3 of approximately RMB7,984,305. Both the lease principal and the interest shall be payable every three months in twenty (20) installments during the lease period in which the first installment is expected to be payable on 18 July 2020.

The terms of the Finance Lease Agreement 3, including the lease principals, lease interests, and other fees and expenses under Incidental Documentation 3, were determined after arm's length negotiations between the parties to the Finance Lease Agreement 3 with reference to the principal amount of the lease, the market interest rate, the average fair price of similar equipment and the amount of financing agreed to be provided by Canton Risen.

Termination and purchase option

The Lessees may terminate the Lease Agreement 3 provided that all outstanding amounts due thereunder and a compensation equivalent to 20 percent of the total outstanding lease interest amount as at the time of early termination have been settled by them. All payment obligations of the Lessees towards Canton Risen are joint and several, regardless of whether any of them may have actual possession and/or usage of the Asset 3. At the end of the lease period or in the event of an early termination of the Finance Lease Agreement 3 subject to the settlement of all outstanding amounts due, the Lessees will have the right to purchase Asset 3 at a nominal purchase price of RMB100.

Guarantee deposit

The Lessees will pay an interest-free deposit of RMB600,000 to Canton Risen on the same day the consideration for the transfer of Asset 3 has been paid by Canton Risen to secure their payment obligations under the Finance Lease Agreement 3.

Pledges

Pursuant to the Incidental Documentation 3, although the ownership of Asset 3 shall be transferred to Canton Risen as lessor as part of the Finance Lease Agreement 3, Asset 3 is treated as security of payment obligations of the Lessees under the Finance Lease Agreement 3 and the Lessees may continue to utilize Asset 3 during the lease term.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Canton Risen and its ultimate beneficial owner are Independent Third Parties.

Pursuant to the Incidental Documentation, Kangda Investment (Hong Kong) and Meiling Zibo pledged all the shareholding interests (representing RMB5,000,000 and SGD3,780,000) and equity derivatives of Meiling Zibo and Qingzhou Meiling respectively in favour of Canton Risen for a term of five years.

Additionally, pursuant to the Incidental Documentation, Meiling Zibo and Qingzhou Meiling pledged their rights in receivables under the sewage treatment plant franchise agreements of Zihe Sewage Treatment Plant, Qicheng Sewage Treatment Plant and Qidu Sewage Treatment Plant, and Qingzhou City Sewage Treatment Plant, respectively, as security of the Lessees' payment obligations under the Finance Lease Agreements.

REASONS FOR AND BENEFITS OF ENTERING INTO THE FINANCE LEASE AGREEMENTS

The Directors believe that the Group will be able to derive additional liquidity through the financial arrangements under the Finance Lease Agreements and benefit from additional working capital to support its business and finance the operational activities of the Lessees.

The Directors considered that the Finance Lease Agreements and the transactions contemplated thereunder are on normal commercial terms which are made on an arm's length basis and are fair and reasonable and in the best interests of the Group and the Shareholders as a whole.

INFORMATION ON THE ASSETS

Asset 1 comprises sewage treatment facilities situated at Zibo City and Qingzhou City in Shandong Province.

Both Asset 2 and Asset 3 comprise sewage treatment facilities situated in Shandong Province.

INFORMATION ON THE LESSEES AND THE GROUP

Meiling Zibo is a limited liability company established in the PRC, which is indirectly wholly owned by the Company. It is principally engaged in construction and operation of waste water treatment plants in the PRC.

Qingzhou Meiling is a limited liability company established in the PRC, which is indirectly wholly owned by the Company. It is principally engaged in construction and operation of waste water treatment plants in the PRC.

Zhongshan Kangda is a limited liability company established in the PRC, which is indirectly wholly owned by the Company. It is principally engaged in construction and operation of waste water treatment plants in the PRC.

Chongqing Kangda is a limited liability company established in the PRC, which is indirectly wholly owned by the Company. It is principally engaged in investment in waste water treatment plants and construction of municipal infrastructure in the PRC.

The Group is mainly engaged in investing in and operating wastewater treatment facilities in the PRC.

INFORMATION ON CANTON RISEN

Canton Risen is a limited liability company established in the PRC, and a subsidiary of China Investments. It is principally engaged in the provision of finance, including through finance leasing, with an initial focus on government public utility, environmental protection, new energy and telecommunication projects in the PRC.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios in respect of the transactions contemplated under the Finance Lease Agreement 1 and the Finance Lease Agreement 2 are more than 5% but less than 25%, the entering into of the Finance Lease Agreement 1 and the Finance Lease Agreement 2, on a standalone basis, constitutes a discloseable transaction of the Company and are subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

As the applicable percentage ratios in respect of the transactions contemplated under the Finance Lease Agreement 3 are less than 5%, the entering into of the Finance Lease Agreement 3, on a standalone basis, does not constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Since the contractual parties to the Finance Lease Agreements are the same and are all entered into within a 12 month period, the Finance Lease Agreements are required to be aggregated as a series of transactions pursuant to Rule 14.22 of the Listing Rules.

As the applicable percentage ratios in respect of the transactions contemplated under the Finance Lease Agreements, on an aggregated basis, are more than 5% but less than 25%, the entering into of the Finance Lease Agreements constitute a discloseable transaction of the Company and are therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

Under the applicable financial reporting standards, the transfer of the Assets will not be accounted for as disposal of assets in the relevant financial statements. Instead, they will be recognised as financing activities and the amounts received are accounted for as financial liabilities. In this regard, the responsible Directors and management believed that the entering into of the Finance Lease Agreements did not constitute a “transaction” under rule 14.04 of the Listing Rules and considered the Finance Lease Agreements as a normal loan from Canton Risen. However, after consulting with the legal adviser of the Company, the Directors re-assessed the situation and believe that the Finance Lease Agreements constitute

a finance lease under rule 14.04(1)(c) of the Listing Rules. The Directors and the management of the Company consider this a misunderstanding of the Listing Rules. In order to avoid such misunderstanding going forward, the Group shall strengthen its internal controls in this regard, including but not limited to seeking advice from its professional advisers in advance for similar transaction in the future if any.

DEFINITIONS

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

“Asset 1”	shall have the meaning as disclosed in the section headed “INFORMATION ON THE ASSETS” in this announcement
“Asset 2”	shall have the meaning as disclosed in the section headed “INFORMATION ON THE ASSETS” in this announcement
“Asset 3”	shall have the meaning as disclosed in the section headed “INFORMATION ON THE ASSETS” in this announcement
“Assets”	collectively, Asset 1, Asset 2 and Asset 3
“Board”	the board of Directors of the Company
“Canton Risen”	Canton Risen Financial Leasing Co., Ltd.* (廣東粵盛科融資租賃有限公司), a company incorporated in the PRC with limited liability and an Independent Third Party
“China Investments”	China Investments Holding Limited (中國興業控股有限公司), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 132)
“Chongqing Kangda”	Chongqing Kangda Environmental Protection Industry Group Co., Ltd.* (重慶康達環保產業(集團)有限公司), a company incorporated in the PRC with limited liability and an indirectly wholly owned subsidiary of the Company
“Company”	Kangda International Environmental Company Limited (康達國際環保有限公司), a company incorporated in Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 6136)
“Director(s)”	the director(s) of the Company
“Finance Lease Agreement 1”	the finance lease agreement dated 9 May 2020 entered into between Canton Risen and the Lessees in relation to the transfer of ownership and lease back of Asset 1

“Finance Lease Agreement 2”	the finance lease agreement dated 19 May 2020 entered into between Canton Risen and the Lessees in relation to the transfer of ownership and lease back of Asset 2
“Finance Lease Agreement 3”	the finance lease agreement dated 19 May 2020 entered into between Canton Risen and the Lessees in relation to the transfer of ownership and lease back of Asset 3
“Finance Lease Agreements”	collectively, the Finance Lease Agreement 1, the Finance Lease Agreement 2, the Finance Lease Agreement 3 and the Incidental Documentation
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“Incidental Documentation”	collectively, Incidental Documentation 1, Incidental Documentation 2 and Incidental Documentation 3
“Incidental Documentation 1”	the agreements incidental to the Finance Lease Agreement 1 including the transfer agreements, the consultancy agreements, the asset pledge agreements, the share pledge agreements and the pledge agreements
“Incidental Documentation 2”	the agreements incidental to the Finance Lease Agreement 2 including the transfer agreements, the consultancy agreements, the asset pledge agreements, the share pledge agreements and the pledge agreements
“Incidental Documentation 3”	the agreements incidental to the Finance Lease Agreement 3 including the transfer agreements, the consultancy agreements, the asset pledge agreements, the share pledge agreements and the pledge agreements
“Independent Third Party(ies)”	(an) independent third party(ies) not connected with the Group and any Director, chief executive or substantial shareholder of the Group or any of its subsidiaries or their respective associate of any of them as defined in the Listing Rules
“Kangda Investment (Hong Kong)”	Kangda Investment (Hong Kong) Company Limited (康達投資(香港)有限公司), a company incorporated in Hong Kong with limited Liability and an indirectly wholly owned subsidiary of the Company
“Lessees”	collectively, Meiling Zibo, Qingzhou Meiling, Zhongshan Kangda and Chongqing Kangda

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Meiling Zibo”	Meiling Environmental Technology (Zibo) Co., Ltd.* (美陵環境科技(淄博)有限公司), a company incorporated in the PRC with limited liability and an indirectly wholly owned subsidiary of the Company
“PRC”	the Peoples’ Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Qingzhou Meiling”	Qingzhou Meiling Sewage Purification Co., Ltd.* (青州市美陵污水淨化有限公司), a company incorporated in the PRC with limited liability and an indirectly wholly owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“SGD”	Singapore Dollar, the lawful currency of Singapore
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhongshan Kangda”	Zhongshan Kangda Water Co., Ltd.* (中山康達水務有限公司), a company incorporated in the PRC with limited liability and an indirectly wholly owned subsidiary of the Company
“%”	percentage

By order of the Board
Kangda International Environmental Company Limited
LI Zhong
Co-Chairman

Hong Kong, 19 June 2020

As at the date of this announcement, the Board comprises seven Directors, namely Mr. ZHAO Juanxian (alias, ZHAO Junxian), Mr. LI Zhong, Ms. LIU Yu Jie and Mr. DUAN, Jerry Linnan as executive Directors; and Mr. CHAU Kam Wing, Mr. CHANG Qing and Mr. PENG Yongzhen as independent non-executive Directors.

* For identification purposes only