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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)

MAJOR TRANSACTION DISPOSAL OF EQUITY INTERESTS IN SUBSIDIARIES

THE DISPOSAL

Reference is made to the announcement of the Company dated 5 September 2023 in relation to the Company's proposed disposal of 80% equity interest in each of the Target Companies held by the Company through Public Tender (the "**Announcement**"). Unless the context otherwise requires, capitalized terms used herein shall have the same meanings as those defined in the Announcement.

The Board announces that the Company has received a notice from KUEX in relation to the identity of the successful bidder for the disposal of the Disposal Interest by the Company. According to the requirements of relevant laws and regulations and the relevant trading rules of KUEX, on 29 December 2023 (after trading hours), (i) the Company (as the Transferor), Sichuan Development Guorun Water (as the Transferee) and Zhaotong Dianchi Water (as the Target Company I) entered into the Equity Transfer Agreement I; (ii) the Company (as the Transferor), Sichuan Development Guorun Water (as the Transferee) and Yiliang Dianchi Water (as the Target Company II) entered into the Equity Transfer Agreement II; and (iii) the Company (as the Transferor), Sichuan Development Guorun Water (as the Transferee) and Suijiang Dianchi Water (as the Target Company III) entered into the Equity Transfer Agreement III, pursuant to all of which the Company has conditionally agreed to sell and the Transferee has conditionally agreed to purchase the Disposal Interest, at a Consideration comprising the equity transfer price of the Disposal Interest in the sum of approximately RMB242,762,100 and the interest of approximately RMB2,412,600 in total as agreed to be calculated based on the price to be paid by the Transferee in instalments, of which the interest as agreed to be calculated based on the price to be paid by the Transferee in instalments shall be subject to the final actual calculated amount, and it is estimated that the total Consideration will not exceed RMB245,174,700. In the event that there is any difference between the final interests as agreed to be calculated based on the price to be paid by the Transferee in instalments and the estimation by the Board, resulting in the total Consideration for the transaction exceeding the estimated amount of RMB245,174,700, the Company will make further announcement in due course.

Upon completion of the Disposal, the Group will only be interested in 20% of each of the Target Companies, the Target Companies will cease to be subsidiaries of the Company, and their financial results will cease to be consolidated into the consolidated financial statements of the Group.

LISTING RULES IMPLICATIONS

Pursuant to Rule 14.23(1) of the Listing Rules, as the Transferees of the Disposal Interest are the same party, the transactions under the Equity Transfer Agreements shall be aggregated. As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Equity Transfer Agreements and the Disposal contemplated thereunder is more than 25% but all of them are less than 75%, the Disposal constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

According to Rule 14.44 of the Listing Rules, Shareholders' approval may be obtained in the form of written Shareholders' approval in lieu of convening a general meeting. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder has a material interest in the Equity Transfer Agreements and the transactions contemplated thereunder. Accordingly, no Shareholder is required to abstain from voting if a general meeting is required to be convened to approve the entering into of the Equity Transfer Agreements and the transactions contemplated thereunder.

As at the date of this announcement, Kunming Dianchi Investment directly holds 660,266,893 shares of the Company (representing approximately 64.16% of the total number of issued shares of the Company). As the Company has obtained a written approval from Kunming Dianchi Investment, according to Rule 14.44 of the Listing Rules, the Company will not convene an extraordinary general meeting for the purpose of approving the entering into of the Equity Transfer Agreements and the transactions contemplated thereunder.

According to Rule 14.41(a) of the Listing Rules, a circular containing, among other things, details of the Equity Transfer Agreements and the Disposal contemplated thereunder and other information required to be disclosed under the Listing Rules is required to be despatched to the Shareholders within 15 business days after the date of this announcement (i.e. on or before 22 January 2024). As additional time is required to prepare the financial and other information to be included in the circular, the Company may not be able to despatch the circular within such period, in which case the Company will apply to the Stock Exchange for a waiver from strict compliance with Rule 14.41(a) of the Listing Rules and will make a further announcement in relation to the expected despatch date of the circular in due course.

On 29 December 2023 (after trading hours), (i) the Company (as the Transferor), Sichuan Development Guorun Water (as the Transferee) and Zhaotong Dianchi Water (as the Target Company I) entered into the Equity Transfer Agreement I; (ii) the Company (as the Transferor), Sichuan Development Guorun Water (as the Transferee) and Yiliang Dianchi Water (as the Target Company II) entered into the Equity Transfer Agreement II; and (iii) the Company (as the Transferor), Sichuan Development Guorun Water (as the Transferee) and Suijiang Dianchi Water (as the Target Company III) entered into the Equity Transfer Agreement III, pursuant to all of which the Company has conditionally agreed to sell and the Transferee has conditionally agreed to purchase the Disposal Interest, at a Consideration comprising the equity transfer price of the Disposal Interest in the sum of approximately RMB242,762,100 and the interest of approximately RMB2,412,600 in total as agreed to be calculated based on the price to be paid by the Transferee in instalments, of which the interest as agreed to be calculated based on the price to be paid by the Transferee in instalments shall be subject to the final actual calculated amount, and it is estimated that the total Consideration will not exceed RMB245,174,700. In the event that there is any difference between the final interests as agreed to be calculated based on the price to be paid by the Transferee in instalments and the estimation by the Board, resulting in the total Consideration for the transaction exceeding the estimated amount of RMB245,174,700, the Company will make further announcement in due course.

Upon completion of the Disposal, the Group will only be interested in 20% of each of the Target Companies, the Target Companies will cease to be subsidiaries of the Company, and their financial results will cease to be consolidated into the consolidated financial statements of the Group.

DETAILS OF THE EQUITY TRANSFER AGREEMENTS

The principal terms of the Equity Transfer Agreements are summarized below:

(1) Equity Transfer Agreement I

Date: 29 December 2023 (after trading hours)

Parties: (i) the Company (as the Transferor);
(ii) Sichuan Development Guorun Water (as the Transferee); and
(iii) Zhaotong Dianchi Water (as the Target Company I).

Subject of the Disposal: The Company has conditionally agreed to sell and the Transferee has conditionally agreed to purchase 80% equity interest in Zhaotong Dianchi Water. As at the date of this announcement, Zhaotong Dianchi Water is a wholly-owned subsidiary of the Company. For details of Zhaotong Dianchi Water, please refer to the section headed “Information on the Target Companies” in this announcement.

Consideration: The Consideration is approximately RMB202,606,800, which comprises (i) the equity transfer price of approximately RMB200,364,200; and (ii) interest of approximately RMB2,242,600 as agreed to be calculated based on the price to be paid by the Transferee in instalments.

Payment of Consideration: The payment shall be made in three instalments (the payment term shall not exceed one year), of which:

- (i) the first instalment is RMB76,602,080 and shall be paid by the Transferee within 2 Working Days upon signing the Equity Transfer Agreement I, which shall be paid with the transaction security deposit. After the Transferee pays the first instalment, it shall provide a legal and valid performance guarantee recognised by the Company that is less than the remaining Consideration amount payable;
- (ii) the second instalment is RMB83,689,248 and shall be paid by the Transferee within 3 Working Days upon the completion of the change of the industrial and commercial registration of the equity. The amount shall be paid with the transaction security deposit. The shortfall of the transaction security deposit shall be made up by the Transferee. During the period from the next day following the payment of the first instalment to the date on which the Transferee actually pays the second instalment, the interest shall be calculated based on the second instalment at the quoted interest rate (i.e. 3.45% per year) in the loan market of the latest 1-year RMB loans issued by the National Interbank Funding Center on the date of signing the Equity Transfer Agreement I, and such interest shall be paid to the Company together with the second instalment; and
- (iii) the third instalment is RMB40,072,832 and shall be paid by the Transferee within 5 Working Days upon the completion of the audit for transitional period. During the period from the next day following the payment of the first instalment to the date on which the Transferee actually pays the third instalment, the interest shall be calculated based on the third instalment at the quoted interest rate (i.e. 3.45% per year) in the loan market of the latest 1-year RMB loans issued by the National Interbank Funding Center on the date of signing the Equity Transfer Agreement I, and such interest shall be paid to the Company together with the third instalment.

The payment of the above second and third instalments is subject to the satisfaction of all conditions precedent as stipulated in the Equity Transfer Agreement I, and shall be made no later than 1 year after the signing of the Equity Transfer Agreement I, whichever is earlier.

The Consideration shall be settled through the fund supervision account of KUEX. Upon receipt of the Consideration paid by the Transferee, KUEX shall, after confirming that the trading service fees was paid to it by the Company and the Transferee, transfer the Consideration to the bank account designated by the Company in accordance with the relevant requirements.

**Conditions precedent
to Completion:**

Completion of the transaction is based on the fulfillment of all the following conditions:

- (i) the Transferee shall obtain a written consent document from the local government of Zhaotong Dianchi Water or its authorised competent department on the transfer of 80% equity interest in Zhaotong Dianchi Water to the Transferee and the franchise right within 20 Working Days upon receipt of the notification from KUEX and the fulfillment of the conventions of conditions precedent (iii) below;
- (ii) the Company has obtained approval from the higher level authorities for the disposal of 80% equity interest in Zhaotong Dianchi Water, and has completed the internal procedures (including but not limited to shareholders' approval), approval, application for approval in accordance with the relevant requirements; and
- (iii) all equity pledges with the equity interests in Zhaotong Dianchi Water as the subject of pledge have been fully released, and the equity interests in Zhaotong Dianchi Water are free from any other encumbrances, seizure or freezing and other mandatory measures.

If the above agreed conditions precedent cannot be fulfilled within 6 months after signing the Equity Transfer Agreement I, and the Company and the Transferee are unable to make changes through negotiation, both parties shall have the right to terminate the Equity Transfer Agreement I without any liability for breach of the agreement. The Company shall refund the transaction security deposit paid by the Transferee (excluding the trading service fees charged by KUEX) in full within 3 Working Days after the termination of the Equity Transfer Agreement I. During the period from the next day following the payment of the transaction security deposit by the Transferee to the date on which the Company returns the transaction security deposit to the Transferee, the interest shall be calculated and paid based on the amount of the transaction security deposit after deducting the trading service fees at the quoted interest rate (i.e. 3.45% per year) in the loan market of the latest 1-year RMB loans issued by the National Interbank Funding Center on the date of signing the Equity Transfer Agreement I. Both parties may also choose to continue to perform the Equity Transfer Agreement I after negotiation and wait for the fulfillment of all the conditions precedent.

Transfer:

After completion of payment of the first instalment by the Transferee as agreed in the Equity Transfer Agreement I, the Transferee will assign an operation and management team to take over the operation of Zhaotong Dianchi Water. Since then, the Company will no longer be responsible for the operation and management of Zhaotong Dianchi Water.

After the Transferee completes the payment of the first instalment as agreed in the Equity Transfer Agreement I and provides corresponding performance guarantee recognised by the Company, the Company and the Transferee will reach an agreement on the amendments to the articles of association of Zhaotong Dianchi Water. Within 5 Working Days after fulfillment of the conditions precedent as agreed in the Equity Transfer Agreement I, the Company and Zhaotong Dianchi Water will cooperate with the Transferee in completing the registration of change of shareholding, the changes of legal representatives and seals of Zhaotong Dianchi Water.

Within 20 Working Days after the Company receives the second instalment, the Company and the Transferee will complete the transfer of assets, finance, seals and other documents and information as agreed.

Gains and losses during the transitional period: The transitional period shall commence on the Base Date and end on the date of completion of the registration of change of shareholding, the Company and the Transferee shall be entitled to and assume any gain or loss incurred during the transitional period in proportion to their respective equity interests in Zhaotong Dianchi Water after the completion of the transaction. Within 5 Working Days from the date of completion of the registration of change of shareholding, the Transferee will engage an audit institution recognised by the Company and the Transferee to conduct a transitional period audit on Zhaotong Dianchi Water.

Completion: Completion of the disposal of 80% equity interest in Zhaotong Dianchi Water shall take place on the fulfillment date of the conditions precedent or the date of completion of the registration of change of shareholding, whichever is later, as agreed in the Equity Transfer Agreement I. Upon completion, the Group will only be interested in 20% of Zhaotong Dianchi Water and Zhaotong Dianchi Water will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the Group's consolidated financial statements.

The Transferee undertakes that upon receiving the notice from the Company requesting it to acquire the remaining interest in Zhaotong Dianchi Water held by the Company in the future, the corresponding work will be commenced as soon as possible, and the specific terms shall be subject to further negotiation between both parties.

(2) Equity Transfer Agreement II

Date: 29 December 2023 (after trading hours)

Parties:

- (i) the Company (as the Transferor);
- (ii) Sichuan Development Guorun Water (as the Transferee); and
- (iii) Yiliang Dianchi Water (as the Target Company II).

Subject of the Disposal: The Company has conditionally agreed to sell and the Transferee has conditionally agreed to purchase 80% equity interest in Yiliang Dianchi Water. As at the date of this announcement, Yiliang Dianchi Water is a wholly-owned subsidiary of the Company. For details of Yiliang Dianchi Water, please refer to the section headed "Information on the Target Companies" in this announcement.

Consideration: The Consideration is approximately RMB19,588,400, which comprises (i) the equity transfer price of approximately RMB19,510,200; and (ii) interest of approximately RMB78,200 as agreed to be calculated based on the price to be paid by the Transferee in instalments.

Payment of Consideration: The payment shall be made in two instalments (the payment term shall not exceed one year), of which:

- (i) the first instalment is RMB15,608,192 and shall be paid by the Transferee within 2 Working Days from the date of completion of the registration of change of shareholding (no later than 5 Working Days from the date of signing the Equity Transfer Agreement II, whichever is earlier), which shall be paid with the transaction security deposit. The shortfall of the transaction security deposit shall be made up by the Transferee. After the Transferee pays the first instalment, it shall provide a legal and valid performance guarantee recognised by the Company that is no less than the remaining Consideration amount payable; and
- (ii) the second instalment is RMB3,902,048 and shall be paid by the Transferee within 5 Working Days after the completion of the transitional period audit (no later than 1 year after the signing of the Equity Transfer Agreement II, whichever is earlier). During the period from the next day following the payment of the first instalment to the date on which the Transferee actually pays the second instalment, the interest shall be calculated based on the second instalment at the quoted interest rate (i.e. 3.45% per year) in the loan market of the latest 1-year RMB loans issued by the National Interbank Funding Center on the date of signing the Equity Transfer Agreement II, and such interest shall be paid to the Company together with the second instalment.

The Consideration shall be settled through the fund supervision account of KUEX. Upon receipt of the Consideration paid by the Transferee, KUEX shall, after confirming that the trading service fees was paid to it by the Company and the Transferee, transfer the Consideration to the bank account designated by the Company in accordance with the relevant requirements.

**Conditions precedent
to Completion:**

Completion of the transaction is based on the fulfillment of all the following conditions:

- (i) the Transferee shall obtain a written consent document from the local government of Yiliang Dianchi Water or its authorised competent department on the transfer of 80% equity interest in Yiliang Dianchi Water to the Transferee and the franchise right within 20 Working Days from the date of receipt of the notification from KUEX; and
- (ii) the Company has obtained approval from the higher level authorities for the disposal of 80% equity interest in Yiliang Dianchi Water, and has completed the internal procedures (including but not limited to shareholders' approval), approval, application for approval in accordance with the relevant requirements.

If the above agreed conditions precedent cannot be fulfilled within 6 months after signing the Equity Transfer Agreement II, and the Company and the Transferee are unable to make changes through negotiation, both parties shall have the right to terminate the Equity Transfer Agreement II without any liability for breach of the agreement. The Company shall refund the transaction security deposit paid by the Transferee (excluding the trading service fees charged by KUEX) in full within 3 Working Days after the termination of the Equity Transfer Agreement II. During the period from the next day following the payment of the transaction security deposit by the Transferee to the date on which the Company returns the transaction security deposit to the Transferee, the interest shall be calculated and paid based on the amount of the transaction security deposit after deducting the trading service fees at the quoted interest rate (i.e. 3.45% per year) in the loan market of the latest 1-year RMB loans issued by the National Interbank Funding Center on the date of signing the Equity Transfer Agreement II. Both parties may also choose to continue to perform the Equity Transfer Agreement II after negotiation and wait for the fulfillment of all the conditions precedent.

Transfer:	<p>Within 10 Working Days from the date on which the Transferee completes the payment of the first instalment as agreed in the Equity Transfer Agreement II and completes the registration of change of shareholding, the Transferee will assign an operation and management team to take over the operation of Yiliang Dianchi Water. Since then, the Company will no longer be responsible for the operation and management of Yiliang Dianchi Water.</p> <p>After signing the Equity Transfer Agreement II, the Company and the Transferee will reach an agreement on the amendments to the articles of association of Yiliang Dianchi Water. The Company and Yiliang Dianchi Water will cooperate with the Transferee in completing the registration of change of shareholding, the changes of legal representatives and seals.</p> <p>Within 20 Working Days from the date of receipt of the first instalment and completion of the registration of change of shareholding, the Company and the Transferee will complete the transfer of assets, finance, seals and other documents and information as agreed.</p>
Gains and losses during the transitional period:	<p>The transitional period shall commence on the Base Date and end on the date of completion of the registration of change of shareholding, the Company and the Transferee shall be entitled to and assume any gain or loss incurred during the transitional period in proportion to their respective equity interests in Yiliang Dianchi Water after the completion of the transaction. Within 5 Working Days from the date of completion of the registration of change of shareholding, the Transferee will engage an audit institution recognised by the Company and the Transferee to conduct a transitional period audit on Yiliang Dianchi Water.</p>
Completion:	<p>Completion of the disposal of 80% equity interest in Yiliang Dianchi Water shall take place on the fulfillment date of the conditions precedent or the date of completion of the registration of change of shareholding, whichever is later, as agreed in the Equity Transfer Agreement II. Upon completion, the Group will only be interested in 20% of Yiliang Dianchi Water and Yiliang Dianchi Water will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the Group's consolidated financial statements.</p> <p>The Transferee undertakes that upon receiving the notice from the Company requesting it to acquire the remaining equity interest in Yiliang Dianchi Water held by the Company in the future, the corresponding work will be commenced as soon as possible, and the specific terms shall be subject to further negotiation between both parties.</p>

(3) Equity Transfer Agreement III

- Date:** 29 December 2023 (after trading hours)
- Parties:**
- (i) the Company (as the Transferor);
 - (ii) Sichuan Development Guorun Water (as the Transferee); and
 - (iii) Suijiang Dianchi Water (as the Target Company III).
- Subject of the Disposal:** The Company has conditionally agreed to sell and the Transferee has conditionally agreed to purchase 80% equity interest in Suijiang Dianchi Water. As at the date of this announcement, Suijiang Dianchi Water is a wholly-owned subsidiary of the Company. For details of Suijiang Dianchi Water, please refer to the section headed “Information on the Target Companies” in this announcement.
- Consideration:** The Consideration is approximately RMB22,979,400, which comprises (i) the equity transfer price of approximately RMB22,887,700; and (ii) interest of approximately RMB91,700 as agreed to be calculated based on the price to be paid by the Transferee in instalments.
- Payment of Consideration:** The payment shall be made in two instalments (the payment term shall not exceed one year), of which:
- (i) the first instalment is RMB18,310,144 and shall be paid by the Transferee within 2 Working Days from the date of completion of the registration of change of shareholding (no later than 5 Working Days from the date of signing the Equity Transfer Agreement III, whichever is earlier), which shall be paid with the transaction security deposit. The shortfall of the transaction security deposit shall be made up by the Transferee. After the Transferee pays the first instalment, it shall provide a legal and valid performance guarantee recognised by the Company that is no less than the remaining Consideration amount payable; and
 - (ii) the second instalment is RMB4,577,536 and shall be paid by the Transferee within 5 Working Days after the completion of the transitional period audit (no later than 1 year after the signing of the Equity Transfer Agreement III, whichever is earlier). During the period from the next day following the payment of the first instalment to the date on which the Transferee actually pays the second instalment, the interest shall be calculated based on the second instalment at the quoted interest rate (i.e. 3.45% per year) in the loan market of the latest 1-year RMB loans issued by the National Interbank Funding Center on the date of signing the Equity Transfer Agreement III, and such interest shall be paid to the Company together with the second instalment.

The Consideration shall be settled through the fund supervision account of KUEX. Upon receipt of the Consideration paid by the Transferee, KUEX shall, after confirming that the trading service fees was paid to it by the Company and the Transferee, transfer the Consideration to the bank account designated by the Company in accordance with the relevant requirements.

Conditions precedent to Completion:

Completion of the transaction is based on the fulfillment of all the following conditions:

- (i) the Transferee shall obtain a written consent document from the local government of Suijiang Dianchi Water or its authorised competent department on the transfer of 80% equity interest in Suijiang Dianchi Water to the Transferee and the franchise right within 20 Working Days from the date of receipt of the notification from KUEX; and
- (ii) the Company has obtained approval from the higher level authorities for the disposal of 80% equity interest in Suijiang Dianchi Water, and has completed the internal procedures (including but not limited to shareholders' approval), approval, application for approval in accordance with the relevant requirements.

If the above agreed conditions precedent cannot be fulfilled within 6 months after signing the Equity Transfer Agreement III, and the Company and the Transferee are unable to make changes through negotiation, both parties shall have the right to terminate the Equity Transfer Agreement III without any liability for breach of the agreement. The Company shall refund the transaction security deposit paid by the Transferee (excluding the trading service fees charged by KUEX) in full within 3 Working Days after the termination of the Equity Transfer Agreement III. During the period from the next day following the payment of the transaction security deposit by the Transferee to the date on which the Company returns the transaction security deposit to the Transferee, the interest shall be calculated and paid based on the amount of the transaction security deposit after deducting the trading service fees at the quoted interest rate (i.e. 3.45% per year) in the loan market of the latest 1-year RMB loans issued by the National Interbank Funding Center on the date of signing the Equity Transfer Agreement III. Both parties may also choose to continue to perform the Equity Transfer Agreement III after negotiation and wait for the fulfillment of all the conditions precedent.

Transfer: Within 10 Working Days from the date on which the Transferee completes the payment of the first instalment as agreed in the Equity Transfer Agreement III and completes the registration of change of shareholding, the Transferee will assign an operation and management team to take over the operation of Suijiang Dianchi Water. Since then, the Company will no longer be responsible for the operation and management of Suijiang Dianchi Water.

After signing the Equity Transfer Agreement III, the Company and the Transferee will reach an agreement on the amendments to the articles of association of Suijiang Dianchi Water. The Company and Suijiang Dianchi Water will cooperate with the Transferee in completing the registration of change of shareholding, the changes of legal representatives and seals.

Within 20 Working Days from the date of receipt of the first instalment and the completion of the registration of change of shareholding, the Company and the Transferee will complete the transfer of assets, finance, seals and other documents and information as agreed.

Gains and losses during the transitional period: The transitional period shall commence on the Base Date and end on the date of completion of the registration of change of shareholding, the Company and the Transferee shall be entitled to and assume any gain or loss incurred during the transitional period in proportion to their respective equity interests in Suijiang Dianchi Water after the completion of the transaction. Within 5 Working Days from the date of completion of the registration of change of shareholding, the Transferee will engage an audit institution recognised by the Company and the Transferee to conduct a transitional period audit on Suijiang Dianchi Water.

Completion: Completion of the disposal of 80% equity interest in Suijiang Dianchi Water shall take place on the fulfillment date of the conditions precedent or the date of completion of the registration of change of shareholding, whichever is later, as agreed in the Equity Transfer Agreement III. Upon completion, the Group will only be interested in 20% of Suijiang Dianchi Water and Suijiang Dianchi Water will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the Group's consolidated financial statements.

The Transferee undertakes that upon receiving the notice from the Company requesting it to acquire the remaining equity interest in Suijiang Dianchi Water held by the Company in the future, the corresponding work will be commenced as soon as possible, and the specific terms shall be subject to further negotiation between both parties.

INFORMATION ON THE PARTIES INVOLVED

Information on the Group

The Company is a joint stock company incorporated in the PRC with limited liability, and 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.

Information on the Transferee and Its Ultimate Beneficial Owners

Sichuan Development Guorun Water is a company incorporated in the PRC with limited liability. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, based on the public information currently available to the Company, as at the date of this announcement, Sichuan Development Guorun Water is held as to 100% by Beijing SPC Environment Protection Tech Co., Ltd.* (北京清新環境技術股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002573), which is in turn held as to 41.56% by Sichuan Ecological Environmental Protection Industry Group Co., Ltd.* (四川省生態環保產業集團有限責任公司). Among them, Sichuan Ecological Environmental Protection Industry Group Co., Ltd.* (四川省生態環保產業集團有限責任公司) is ultimately held as to approximately 90% by State-owned Assets Supervision and Administration Commission of Sichuan Province.

The Transferee and its ultimate beneficial owners are third parties who are independent of the Company and its connected persons.

Information on the Target Companies

(1) *Zhaotong Dianchi Water (Target Company I)*

Zhaotong Dianchi Water is a company incorporated in the PRC with limited liability on 23 October 2019 with a registered capital of RMB100,000,000 and is principally engaged in the business relating to wastewater treatment and sludge treatment and disposal. As at the date of this announcement, Zhaotong Dianchi Water is a wholly-owned subsidiary of the Company. Set out below is a summary of the audited financial information of Zhaotong Dianchi Water for the two years ended 31 December 2021 and 2022 and the financial information for the six months ended 30 June 2023:

	For the year ended 31 December		For the six months ended 30 June
	2021	2022	2023
	RMB'0000	RMB'0000	RMB'0000
	(audited)	(audited)	(unaudited)
Net profit before tax	3,234.50	8,082.50	2,247.68
Net profit after tax	2,846.56	9,531.22	2,109.20

The audited net asset value of Zhaotong Dianchi Water as at the Base Date was RMB166,128,100, and the unaudited net asset value as at 30 June 2023 as confirmed based on the internal management account was approximately RMB182,955,500.

(2) *Yiliang Dianchi Water (Target Company II)*

Yiliang Dianchi Water is a company incorporated in the PRC with limited liability on 4 June 2015 with a registered capital of RMB21,000,000 and is principally engaged in the business of wastewater treatment. As at the date of this announcement, Yiliang Dianchi Water is a wholly-owned subsidiary of the Company. Set out below is a summary of the audited financial information of Yiliang Dianchi Water for the two years ended 31 December 2021 and 2022 and the financial information for the six months ended 30 June 2023:

	For the year ended 31 December		For the six months ended 30 June
	2021	2022	2023
	RMB'0000	RMB'0000	RMB'0000
	(audited)	(audited)	(unaudited)
Net profit before tax	388.24	345.91	266.89
Net profit after tax	279.01	523.30	255.36

The audited net asset value of Yiliang Dianchi Water as at the Base Date was RMB21,256,700, and the unaudited net asset value as at 30 June 2023 as confirmed based on the internal management account was approximately RMB25,662,300.

(3) Suijiang Dianchi Water (Target Company III)

Suijiang Dianchi Water is a company incorporated in the PRC with limited liability on 9 December 2015 with a registered capital of RMB22,000,000 and is principally engaged in the business of wastewater treatment. As at the date of this announcement, Suijiang Dianchi Water is a wholly-owned subsidiary of the Company. Set out below is a summary of the audited financial information of Suijiang Dianchi Water for the two years ended 31 December 2021 and 2022 and the financial information for the six months ended 30 June 2023:

	For the year ended 31 December		For the six months ended 30 June
	2021	2022	2023
	<i>RMB'0000</i>	<i>RMB'0000</i>	<i>RMB'0000</i>
	(audited)	(audited)	(unaudited)
Net profit before tax	377.25	419.95	177.26
Net profit after tax	354.40	477.93	169.50

The audited net asset value of Suijiang Dianchi Water as at the Base Date was RMB23,604,000, and the unaudited net asset value as at 30 June 2023 as confirmed based on the internal management account was approximately RMB25,678,000.

DETERMINATION OF CONSIDERATION FOR DISPOSAL

The Consideration is determined based on the final bid price of the Public Tender with reference to (i) the appraised value of the total shareholders' equity of each of the Target Companies and the corresponding appraised value of the share of the Disposal Interest as appraised by a valuer; and (ii) the interest expected to be received by the Company under the payment of the Consideration in instalments (the final amount shall be calculated at the time of actual receipt of the Consideration).

According to the asset valuation reports issued by Kunming Bangke Asset Appraisal in respect of each of the Target Companies, the valuer adopted the income approach to appraise the total shareholders' equity of each of the Target Companies, and concluded that as at the Base Date, (i) the appraised value of the total shareholders' equity of Zhaotong Dianchi Water was RMB250,455,200, representing the appraised value of the equity corresponding to the 80% equity interest in Zhaotong Dianchi Water held by the Company of approximately RMB200,364,200; (ii) the appraised value of the total shareholders' equity of Yiliang Dianchi Water was RMB24,387,800, representing the appraised value of the equity corresponding to the 80% equity interest in Yiliang Dianchi Water held by the Company of approximately RMB19,510,200; and (iii) the appraised value of the total shareholders' equity of Suijiang Dianchi Water was RMB28,609,600, representing the appraised value of the equity corresponding to the 80% equity interest in Suijiang Dianchi Water held by the Company of approximately RMB22,887,700. The Board has also made reference to the above appraised value in determining the floor price for the Public Tender.

As the valuation of the entire shareholders' equity of each of the Target Companies is conducted under the income approach, which involves the calculations of discounted future estimated cash flows, it constitutes a profit forecast under Rule 14.61 of the Listing Rules. In accordance with Rule 14.60A and Rule 14.62 of the Listing Rules, the valuation assumptions are set out below (unless otherwise indicated, all the assumptions set out below are applicable to the Target Companies):

1. General Assumptions

(a) Transaction assumption

Transaction assumption assumes all assets to be valued are in the course of transaction and the valuation is based on simulated market including terms of transaction of the target assets. Transaction assumption is the most basic precondition for the implementation of asset valuation.

(b) Open market assumption

Open market assumption assumes that both parties to the assets transaction or the proposed assets transaction in the market are in equal position and have opportunities and time to obtain sufficient market information in order to make rational judgments on the assets including their functions, purposes and transaction prices. The basis of open market assumption is that the assets can be traded openly in the market.

(c) Assumption of continuous use of assets

The assumption of continuous use of assets means that the valuation methods, parameters and basis shall be determined correspondingly based on the fact that the assets to be appraised will continue to be used or re-used according to the current use and the model, scale, frequency and environment, etc. or used on a change basis when evaluating.

(d) Going concern assumption

The enterprise operates continually in pursuit of its operation objectives under its external environment as a business entity. The enterprise conducts lawful operation, and is able to acquire appropriate profits to maintain its capability to operate as a going concern.

(e) The valuation report only provides valuable reference opinions for the purpose of the appraisal, and does not take into account the impact of other economic activities and derived value basis on the appraisal conclusion. Therefore, the valuation report and conclusion generally cannot be applied to other appraisal purposes.

(f) The appraised assets are owned by the Target Companies with clear ownership, without dispute and restriction.

- (g) All documents and materials provided by the Company and each of the Target Companies are true, valid and accurate.
- (h) Each of the Target Companies is not subject to disputes over property titles and other economic disputes, and there is no force majeure or unforeseeable factors that have a material adverse effect on the enterprise.
- (i) The impact that a particular trading method may have on the appraisal conclusion are not taken into consideration.

2. Specific Assumptions

- (a) It is assumed that there will be no material changes in the socio-economic environment of the regions where each of the appraised Target Companies is located and in the PRC, no material changes in the national laws, regulations, rules and socio-political and economic policies currently in force, and no material changes in the industry management model, industry policies, the market environment and condition of the industry in which the Target Companies are engaged.
- (b) It is assumed that the relevant credit interest rates, exchange rates, tax bases and tax rates, as well as policy-based charges will be at the level of the Evaluation Base Date, and will fluctuate within the normal range without significant changes.
- (c) The future operators of each of the Target Companies will comply with the relevant national laws and regulations, and there will be no major non-compliance that may affect the development and earnings of the company.
- (d) The present and future operators of each of the Target Companies are responsible, and the management of the company will be able to steadily proceed with the development plan of the company to maintain a good operating position.
- (e) It is assumed that the professional personnel and senior management of each of the Target Companies will remain relatively stable and there will be no significant outflow of core professional personnel in the following years.
- (f) It is assumed that the accounting policies to be adopted by each of the Target Companies in the future are substantially consistent with those adopted in the preparation of the valuation report in all material respects.
- (g) It is assumed that each of the Target Companies will continue to operate as a going concern, and the debt assets can be recovered on time and in full or form effective and equal assets to fulfill its contractual obligations in accordance with the law.
- (h) It is assumed that the cash inflow of each of the appraised Target Companies after the Evaluation Base Date will be the average inflow.

- (i) The various parameters measured in the appraisal are predicted by each of the appraised Target Companies and the principal, assuming that there will be no material changes in the forecast figures in the coming years.
- (j) Zhaotong Dianchi Water: According to the relevant national tax laws and policies, Zhaotong Dianchi Water enjoys the refund-upon-collection policy of value-added tax since its establishment, and adopts the policy of exemption from value-added tax from March 2022; enjoys the “three-year half exemption” policy and is subject to an enterprise income tax rate of 12.5% from 2023 to 2025, 15% from 1 January 2026 to 31 December 2030, and 25% after 1 January 2031.

Yiliang Dianchi Water: According to the relevant national tax laws and policies, Yiliang Dianchi Water enjoys the refund-upon-collection policy of value-added tax since its establishment, and adopts the policy of exemption from value-added tax from March 2022; is subject to an enterprise income tax rate of 15% from 1 January 2021 to 31 December 2030 and 25% after 1 January 2031.

Suijiang Dianchi Water: According to the relevant national tax laws and policies, Suijiang Dianchi Water enjoys the refund-upon-collection policy of value-added tax since its establishment, and adopts the policy of exemption from value-added tax from March 2022; is subject to an enterprise income tax rate of 15% from 1 January 2021 to 31 December 2030 and 25% after 1 January 2031.

3. Commercial Assumptions

3.1 Zhaotong Dianchi Water

- (a) According to the relevant agreements of the concession rights of Zhaotong Dianchi Water, the forecast periods of the valuation of two water plants under Zhaotong Dianchi Water have been assumed to be from 28 February 2023 to 31 December 2049 and from 28 February 2023 to 31 March 2051, respectively;
- (b) It is assumed that during the forecast period, Zhaotong Dianchi Water will only carry out business related to wastewater treatment and sludge disposal in Zhaotong City, Yunnan Province;
- (c) Assumptions related to revenue: It is assumed that the wastewater treatment fees charged by Zhaotong Dianchi Water pursuant to the relevant concession agreements during the forecast period are RMB2.759 per m³ from 28 February 2023 to 31 July 2027, RMB2.915 per m³ from 1 August 2027 to 31 March 2051, and the sludge disposal revenue is RMB278 per tonne from 28 February 2023 to 31 March 2051;
- (d) Assumptions related to operating costs: The operating costs are mainly labour costs, chemical costs, energy costs and sludge disposal costs. The annual average cost during the forecast period is approximately RMB19,117,700 per annum. During the forecast period, 2% increase in labour salary every two years is considered, and the increased unit variable cost caused by possible inflation and other reasons is not taken into account in the remaining costs;

- (e) Assumptions related to period expenses: The period expenses include administrative expenses, manufacturing expenses, overhaul expenses and other expenses. Based on the historical information of Zhaotong Dianchi Water, the concession agreements and the actual situation during the current operation period, the annual average expenses for the forecast period is approximately RMB8,147,900 and the provision for overhaul expenses every five years is approximately RMB36,580,300. The above expenses are calculated on a rate basis during the forecast period, assuming that the various rates remain unchanged during the forecast period. The financial expenses will no longer be required to be financed after 7 May 2036, and therefore no financial expenses will be incurred after 7 May 2036;
- (f) Depreciation and amortisation and capital expenditure: The expected useful life of fixed assets varies from 5 to 30 years depending on the category. The amortisation of intangible assets is only for long-term receivables, and the amortisation period is determined to be consistent with the operating period according to its characteristics. Capital expenditure mainly includes expenditure incurred for the renewal of fixed assets, machinery and equipment, electronic equipment and vehicles; and
- (g) The assumed annual discount rate of cash flows (post-tax) has been set at 4.62% for the first year (at an income tax rate of 12.5%), which is based on the valuation model of weighted average cost of capital, taking into account the factors such as market risks of the industries and the specific risks of the company. The annual discount rate of cash flows (post-tax) from 2036 to the end of the forecast period has been set at 7.37% for the first year (at an income tax rate of 25%) due to annual changes in interest-bearing debts and income tax rate from 2023 to 2035.

3.2 Yiliang Dianchi Water

- (a) According to the relevant concession contracts of Yiliang Dianchi Water, the forecast period of the valuation has been assumed to be from 28 February 2023 to 31 May 2045;
- (b) It is assumed that during the forecast period, Yiliang Dianchi Water will only carry out business related to wastewater treatment and sludge disposal in Yiliang County, Yunnan Province;
- (c) Assumptions related to revenue: It is assumed that the wastewater treatment fees charged by Yiliang Dianchi Water pursuant to the relevant concession contracts during the forecast period are RMB2.55 per m³, and the revenue from the sewage transfer pump station is RMB400,000 per annum;
- (d) Assumptions related to operating costs: The operating costs are mainly labour costs, chemical costs, energy costs and sludge transportation costs, etc. The annual average cost during the forecast period is approximately RMB2,295,000 per annum. During the forecast period, 2% increase in labour salary every two years is considered, and the increased unit variable cost caused by possible inflation and other reasons is not taken into account in the remaining costs;

- (e) Assumptions related to period expenses: The period expenses include administrative expenses, overhaul expenses and other expenses. Based on the historical information of Yiliang Dianchi Water, the concession agreements and the actual situation during the current operation period, the annual average expenses for the forecast period is approximately RMB375,700 and the provision for overhaul expenses every five years is approximately RMB2,456,800. The above expenses are calculated on a rate basis during the forecast period, assuming that the various rates remain unchanged during the forecast period. There is no financial expense as Yiliang Dianchi Water has no financing needs;
- (f) Depreciation and amortisation and capital expenditure: The expected useful life of fixed assets varies from 5 to 30 years depending on the category. The amortisation of intangible assets is only for long-term receivables, and the amortisation period is determined to be consistent with the operating period according to its characteristics. Capital expenditure mainly includes expenditure incurred for the renewal of fixed assets, machinery and equipment, electronic equipment and vehicles; and
- (g) The assumed annual discount rate of cash flows (post-tax) has been set at 7.27%, which is based on the valuation model of weighted average cost of capital, taking into account the factors such as market risks of the industries and the specific risks of the company.

3.3 *Suijiang Dianchi Water*

- (a) According to the relevant concession contracts of Suijiang Dianchi Water, the forecast period of the valuation has been assumed to be from 28 February 2023 to 8 December 2045;
- (b) It is assumed that during the forecast period, Suijiang Dianchi Water will only carry out business related to wastewater treatment and sludge disposal in Suijiang County, Yunnan Province;
- (c) Assumptions related to revenue: It is assumed that the wastewater treatment fees charged by Suijiang Dianchi Water pursuant to the relevant concession contracts during the forecast period are RMB1.7 per m³;
- (d) Assumptions related to operating costs: The operating costs are mainly labour costs, chemical costs, energy costs and sludge disposal costs, etc. The annual average cost during the forecast period is approximately RMB2,874,000 per annum. During the forecast period, only a 2% increase in labour salary every two years is considered, and the increased unit variable cost caused by possible inflation and other reasons is not taken into account in the remaining costs;

- (e) Assumptions related to period expenses: The period expenses include administrative expenses, overhaul expenses and other expenses. Based on the historical information of Suijiang Dianchi Water, the concession agreements and the actual situation during the current operation period, the annual average expenses for the forecast period is approximately RMB294,900 and the provision for overhaul expenses every five years is approximately RMB887,800. The above expenses are calculated on a rate basis during the forecast period, assuming that the various rates remain unchanged during the forecast period. There is no financial expense as Suijiang Dianchi Water has no financing needs;
- (f) Depreciation and amortisation and capital expenditure: The expected useful life of fixed assets varies from 5 to 30 years depending on the category. The amortisation of intangible assets is only for long-term receivables, and the amortisation period is determined to be consistent with the operating period according to its characteristics. Capital expenditure mainly includes expenditure incurred for the renewal of fixed assets, machinery and equipment, electronic equipment and vehicles; and
- (g) The assumed annual discount rate of cash flows (post-tax) has been set at 7.27%, which is based on the valuation model of weighted average cost of capital, taking into account the factors such as market risks of the industries and the specific risks of the company.

The Directors confirm that the forecasts of the discounted future estimated cash flows in the valuation report of Kunming Bangke Assets Appraisal, which constitutes a profit forecast under Rule 14.61 of the Listing Rules, were made after due and careful enquiry. A confirmation letter in respect of the valuation further issued by the Board is set out in Appendix I to this announcement.

Pan-China Certified Public Accountants LLP (Special General Partnership) (“**Pan-China Certified Public Accountants**”) has been engaged by the Company to review the arithmetical calculation and compilation of the discounted future estimated cash flows upon which the valuation report prepared by Kunming Bangke Asset Appraisal was based. A confirmation letter issued by Pan-China Certified Public Accountants is set out in Appendix II to this announcement.

EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given opinions and advice contained in this announcement:

Name	Qualification
Kunming Bangke Asset Appraisal	Independent professional valuer
Pan-China Certified Public Accountants	Certified Public Accountants, China

Each of Kunming Bangke Asset Appraisal and Pan-China Certified Public Accountants has given and has not withdrawn its respective written consent to the publication of this announcement with the inclusion of its report/letter and all references to its name (including its qualifications) in the form and context in which they are included.

To the best knowledge, information and belief of the Board and having made all reasonable enquiries, each of Kunming Bangke Asset Appraisal and Pan-China Certified Public Accountants is a third party independent of the Group and is not a connected person of the Group. As at the date of this announcement, neither Kunming Bangke Asset Appraisal nor Pan-China Certified Public Accountants has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person(s) to subscribe for securities in any member of the Group.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Disposal will allow the Company to recover the investment in advance and realise the investment earnings, thereby providing the Company with greater flexibility in identifying and participating in other suitable investment opportunities.

Based on the above reasons, at the Board meeting at which the Disposal was considered, all Directors of the Board other than Mr. Zhou Jianbo and the then Director, Ms. Wang Dongfang (the “**Dissenting Directors**”) are of the view that the Disposal will be conducted on normal commercial terms, which are fair and reasonable and in the interests of the Company and its shareholders as a whole. In particular, in the voting process of the Board, Mr. Zhou Jianbo voted against the Disposal, mainly because Mr. Zhou Jianbo considered that each of the Target Companies remained profitable for the last three years, the aggregate audited net profit of the Target Companies for the year ended 31 December 2022 accounted for approximately 30% of the Group’s consolidated net profit, the Target Companies were the Group’s core assets, and the expected transaction Consideration of the Disposal Interest will be lower than the figure calculated based on the price-to-earnings ratio of the water segment of listed peers; and Ms. Wang Dongfang abstained from voting, mainly because Ms. Wang Dongfang considered that the treatment capacity of water plants under the Target Companies was relatively large, and recommended the Company to continue to hold the Disposal Interest.

All Directors of the Board have given due and careful consideration to the Disposal and the views of the Dissenting Directors.

Save for the Dissenting Directors, all other Directors of the Board unanimously consider that although the Target Companies accounts for a certain percentage of the consolidated net profit of the Group and has a certain scale of operation, the Disposal can enable the Company to have more sufficient funds for its daily operation and to seize other investment opportunities to obtain greater investment returns. In addition, upon completion of the Disposal, the Company will still hold 20% equity interest in each of the Target Companies, which can maintain certain contribution of the Target Companies to the consolidated financial results of the Group. In determining the floor price for the Public Tender under the Disposal, the Group has made reference to the appraised value of the total shareholders’ equity of the each of the Target Companies and the corresponding appraised value of the share of the Disposal Interest as appraised by Kunming Bangke Asset Appraisal, an independent appraiser, to ensure the fairness and reasonableness of the Consideration. The Group has also taken into account the interest income that may be generated from the payment of the Consideration by instalments, which is in the interests of the Company as a whole.

Based on the above reasons, all the remaining Directors, except for the Dissenting Directors, voted in favour and the Board resolved to approve the Disposal.

FINANCIAL IMPACT OF THE DISPOSAL AND USE OF ITS PROCEEDS

Upon the Completion, the Target Companies will no longer be consolidated into the Group's consolidated financial statements and the remaining 20% equity interest in the Target Companies held by the Company will be accounted for using the long-term equity investment under equity method. Assuming the Disposal will be completed on 30 November 2023, the estimated net gain before tax of the Group in respect of the Disposal is the aggregate of (i), (ii) and (iii) below, which amounts to approximately RMB41,041,300. Details are as follows:

- (i) the estimated net gain before tax from the disposal of 80% equity interest in Zhaotong Dianchi Water is approximately RMB41,735,400, which is the aggregate of (a) and (b) below:
 - (a) the difference between the sum of approximately RMB202,606,800 of the equity transfer price under the Equity Transfer Agreement I and the interest as agreed to be calculated based on the equity transfer price to be paid by the Transferee in instalments and 80% net asset value of Zhaotong Dianchi Water of approximately RMB168,769,900 as of 30 November 2023 determined in the management accounts of the Group's consolidated financial statements (i.e. the estimated net gain before tax of approximately RMB33,836,900); and
 - (b) the difference between the value of the remaining 20% equity interest in Zhaotong Dianchi Water held by the Group accounted for using the equity method in the Group's consolidated financial statements as of 30 November 2023 of approximately RMB50,091,000 and the 20% net asset value of Zhaotong Dianchi Water of approximately RMB42,192,500 as of 30 November 2023 determined in the management accounts of the Group's consolidated financial statements (i.e. the estimated net gain before tax of approximately RMB7,898,500).
- (ii) the estimated net loss before tax from the disposal of 80% equity interest in Yiliang Dianchi Water is approximately RMB2,689,400, which is the aggregate of (a) and (b) below:
 - (a) the difference between the sum of approximately RMB19,588,400 of the equity transfer price under the Equity Transfer Agreement II and the interest as agreed to be calculated based on the equity transfer price to be paid by the Transferee in instalments and 80% net asset value of Yiliang Dianchi Water of approximately RMB21,724,300 as of 30 November 2023 determined in the management accounts of the Group's consolidated financial statements (i.e. the estimated net loss before tax of approximately RMB2,135,900); and
 - (b) the difference between the value of the remaining 20% equity interest in Yiliang Dianchi Water held by the Group accounted for using the equity method in the Group's consolidated financial statements as at 30 November 2023 of approximately RMB4,877,600 and the 20% net asset value of Yiliang Dianchi Water of approximately RMB5,431,100 as of 30 November 2023 determined in the management accounts of the Group's consolidated financial statements (i.e. the estimated net loss before tax of approximately RMB553,500).

- (iii) the estimated net gain before tax from the disposal of 80% equity interest in Suijiang Dianchi Water is approximately RMB1,995,300, which is the aggregate of (a) and (b) below:
- (a) the difference between the sum of approximately RMB22,979,400 of the equity transfer price under the Equity Transfer Agreement III and the interest as agreed to be calculated based on the equity transfer price to be paid by the Transferee in instalments and 80% net asset value of Suijiang Dianchi Water of approximately RMB21,364,800 as of 30 November 2023 determined in the management accounts of the Group's consolidated financial statements (i.e. the estimated net gain before tax of approximately RMB1,614,600); and
 - (b) the difference between the value of the remaining 20% equity interest in Suijiang Dianchi Water held by the Group accounted for using the equity method in the Group's consolidated financial statements as at 30 November 2023 of approximately RMB5,721,900 and the 20% net asset value of Suijiang Dianchi Water of approximately RMB5,341,200 as of 30 November 2023 determined in the management accounts of the Group's consolidated financial statements (i.e. the estimated net gain before tax of approximately RMB380,700).

The above calculations are estimates for illustrative purpose only and do not represent the financial position of the Group upon the Completion. The actual financial effect of the Disposal will be determined with reference to the financial position of the Group as at the Completion Date.

The net proceeds from the Disposal will be used as general working capital of the Group.

LISTING RULES IMPLICATIONS

Pursuant to Rule 14.23(1) of the Listing Rules, as the Transferees of the Disposal Interest are the same party, the transactions under the Equity Transfer Agreements shall be aggregated. As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Equity Transfer Agreements and the Disposal contemplated thereunder is more than 25% but all of them are less than 75%, the Disposal constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

According to Rule 14.44 of the Listing Rules, Shareholders' approval may be obtained in the form of written Shareholders' approval in lieu of convening a general meeting. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder has a material interest in the Equity Transfer Agreements and the transactions contemplated thereunder. Accordingly, no Shareholder is required to abstain from voting if a general meeting is required to be convened to approve the entering into of the Equity Transfer Agreements and the transactions contemplated thereunder.

As at the date of this announcement, Kunming Dianchi Investment directly holds 660,266,893 shares of the Company (representing approximately 64.16% of the total number of issued shares of the Company). As the Company has obtained a written approval from Kunming Dianchi Investment, according to Rule 14.44 of the Listing Rules, the Company will not convene an extraordinary general meeting for the purpose of approving the entering into of the Equity Transfer Agreements and the transactions contemplated thereunder.

According to Rule 14.41(a) of the Listing Rules, a circular containing, among other things, details of the Equity Transfer Agreements and the Disposal contemplated thereunder and other information required to be disclosed under the Listing Rules is required to be despatched to the Shareholders within 15 business days after the date of this announcement (i.e. on or before 22 January 2024). As additional time is required to prepare the financial and other information to be included in the circular, the Company may not be able to despatch the circular within such period, in which case the Company will apply to the Stock Exchange for a waiver from strict compliance with Rule 14.41(a) of the Listing Rules and will make a further announcement in relation to the expected despatch date of the circular in due course.

DEFINITIONS

“Base Date”	the base date for audit and valuation of the Disposal, being 28 February 2023
“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 Disposal
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration for the purchase of the Disposal Interest payable by the Transferee under the Equity Transfer Agreements
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Disposal”	disposal of the Disposal Interest by the Company through Public Tender
“Disposal Interest”	80% equity interest in Zhaotong Dianchi Water, 80% equity interest in Yiliang Dianchi Water and 80% equity interest in Suijiang Dianchi Water held by the Company
“Equity Transfer Agreements”	Equity Transfer Agreement I, Equity Transfer Agreement II and Equity Transfer Agreement III
“Equity Transfer Agreement I”	an equity transfer agreement dated 29 December 2023 entered into among the Company, Sichuan Development Guorun Water and Zhaotong Dianchi Water in respect of the disposal of 80% equity interest in Zhaotong Dianchi Water

“Equity Transfer Agreement II”	an equity transfer agreement dated 29 December 2023 entered into among the Company, Sichuan Development Guorun Water and Yiliang Dianchi Water in respect of the disposal of 80% equity interest in Yiliang Dianchi Water
“Equity Transfer Agreement III”	an equity transfer agreement dated 29 December 2023 entered into among the Company, Sichuan Development Guorun Water and Suijiang Dianchi Water in respect of the disposal of 80% equity interest in Suijiang Dianchi Water
“Group”	the Company and its subsidiaries
“KUEX”	Kunming United Equity Exchange Co., Ltd.* (昆明聯合產權交易所有限公司), a wholly state-owned company established with capital from the State-owned Assets Supervision and Administration Commission of the Kunming People’s Government (昆明市人民政府國有資產監督管理委員會)
“Kunming Bangke Asset Appraisal”	Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd.* (昆明幫克土地房地產資產評估有限公司), a company incorporated in the PRC with limited liability, which provides valuation services for the value of the entire equity interests in each of the Target Companies involved in the Disposal and is a third party independent of the Company and its connected persons
“Kunming Dianchi Investment”	Kunming Dianchi Investment Co. Ltd.* (昆明滇池投資有限責任公司), a company established in Yunnan Province, PRC with limited liability on 13 October 2004, which is a controlling shareholder of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“PRC”	the People’s Republic of China
“Public Tender”	the public tender for the Disposal through KUEX
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	shareholder(s) of the Company
“Sichuan Development Guorun Water” or “Transferee”	Sichuan Development Guorun Water Investment Co., Ltd* (四川發展國潤水務投資有限公司), a company incorporated in the PRC with limited liability and a third party independent of the Company and its connected persons

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the same meaning ascribed to it under the Listing Rules
“Suijiang Dianchi Water” or “Target Company III”	Suijiang Dianchi Water Treatment Co., Ltd.* (綏江滇池水務有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company as at the date of this announcement
“Target Companies”	Zhaotong Dianchi Water, Yiliang Dianchi Water and Suijiang Dianchi Water, all of which are wholly-owned subsidiaries of the Company as at the date of this announcement
“transaction security deposit”	the transaction security deposit paid by the Transferee upon the bidding for the Disposal of RMB120,000,000 in total
“Working Day(s)”	a day other than Saturday, Sunday and statutory holiday in the PRC, on which commercial banks in the PRC are open for normal business
“Yiliang Dianchi Water” or “Target Company II”	Yiliang Dianchi Water Treatment Co., Ltd.* (彝良滇池水務有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company as at the date of this announcement
“Zhaotong Dianchi Water” or “Target Company I”	Zhaotong Dianchi Water Treatment Co., Ltd.* (昭通滇池水務有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company as at the date of this announcement
“%”	per cent.

By order of the Board
Kunming Dianchi Water Treatment Co., Ltd.
Zeng Feng
Chairperson and executive Director

Kunming, the PRC, 29 December 2023

As at the date of this announcement, the Board comprises Mr. Zeng Feng and Mr. Chen Changyong, as executive Directors; Mr. Xu Jingdong, Mr. Zhou Jianbo and Mr. Zhang Yang, as non-executive Directors; and Mr. Zha Guiliang, Ms. Zheng Dongyu and Mr. Ong King Keung, as independent non-executive Directors.

** For identification purpose only*

APPENDIX I LETTER FROM THE BOARD

29 December 2023

The Listing Division
The Stock Exchange of Hong Kong Limited
12th Floor, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

Dear Sirs and Madams,

MAJOR TRANSACTION IN RELATION TO DISPOSAL OF EQUITY INTERESTS IN SUBSIDIARIES

Reference are made to the Asset Valuation Report on the Valuation Project of the Value of the Entire Shareholders' Equity Interests of Zhaotong Dianchi Water Treatment Co., Ltd. (《昭通滇池水務有限公司股東全部權益價值評估項目資產評估報告》), the Asset Valuation Report on the Valuation Project of the Value of the Entire Shareholders' Equity Interests of Yiliang Dianchi Water Treatment Co., Ltd. (《彝良滇池水務有限公司股東全部權益價值評估項目資產評估報告》) and the Asset Valuation Report on the Valuation Project of the Value of the Entire Shareholders' Equity Interests of Suijiang Dianchi Water Treatment Co., Ltd. (《綏江滇池水務有限公司股東全部權益價值評估項目資產評估報告》) (collectively, the “**Valuation Reports**”) all dated 29 November 2023 prepared by Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd.* (昆明幫克土地房地產資產評估有限公司) in relation to the valuation of 100% shareholders' equity interests of Zhaotong Dianchi Water Treatment Co., Ltd.* (昭通滇池水務有限公司), Yiliang Dianchi Water Treatment Co., Ltd.* (彝良滇池水務有限公司) and Suijiang Dianchi Water Treatment Co., Ltd.* (綏江滇池水務有限公司) as at 28 February 2023 (the “**Valuations**”), respectively. The Valuations have been prepared in accordance with the income approach, which involves the calculation of the discounted future estimated cash flows and therefore constitutes a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

We have reviewed the bases and assumptions upon which the Valuations have been prepared and have reviewed the Valuations for which Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd.* (昆明幫克土地房地產資產評估有限公司) is responsible. We have also considered the confirmation letter issued by Pan-China Certified Public Accountants LLP (Special General Partnership) engaged by the Company as to whether the Valuations have been properly prepared for the purpose of the calculation. We hereby confirm that the calculations of the discounted future estimated cash flows for the Valuations have been made after due and careful enquiry.

Yours faithfully,
On behalf of the Board
Kunming Dianchi Water Treatment Co., Ltd.
Zeng Feng
Chairperson and executive Director

* For identification purpose only

APPENDIX II AUDITOR'S CONFIRMATION LETTER

REPORT ON DISCOUNTED FUTURE CASH FLOWS ON THE VALUATION OF EQUITY INTEREST IN THE TARGET COMPANIES

To the Board of Directors of Kunming Dianchi Water Treatment Co., Ltd.

We have checked the calculations of the discounted future estimated cash flows on which the valuation (the “**Valuation**”) prepared by Kunming Bangke Land and Real Estate Asset Appraisal Co., Ltd.* (昆明幫克土地房地產資產評估有限公司) on 29 November 2023 in respect of the equity interests in Zhaotong Dianchi Water Treatment Co., Ltd.* (昭通滇池水務有限公司), Yiliang Dianchi Water Treatment Co., Ltd.* (彝良滇池水務有限公司) and Suijiang Dianchi Water Treatment Co., Ltd.* (綏江滇池水務有限公司) (collectively, the “**Target Companies**”) as at 28 February 2023 is based. The Valuation is set out in the announcement issued by Kunming Dianchi Water Treatment Co., Ltd. (the “**Company**”) dated 29 December 2023 (the “**Announcement**”). The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Directors' Responsibilities for the Discounted Future Estimated Cash Flows

The directors (the “**Directors**”) of the Target Companies are solely responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions (the “**Assumptions**”) determined by the Directors and set out in the Announcement. This responsibility includes performing appropriate procedures in relation to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making reasonable estimates in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), which are formulated based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management 1 “Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements”, which requires firms to design, implement and operate a quality management system, including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by Rule 14.62(2) of the Listing Rules, on whether the calculations of the discounted future estimated cash flows have been properly prepared in all material respects in accordance with the Assumptions on which the Valuation is based and to report our opinion to the Company, and for no other purpose. We do not assume or accept any responsibility to any other person for the contents of this report.

We have conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether the calculations of the discounted future estimated cash flows have been properly prepared in accordance with the Assumptions. Our work was primarily limited to making inquiries with the Company's management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the preparation of the discounted future estimated cash flows. Our work does not constitute any valuation of the Target Companies.

Because the Valuation relates to the discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypotheses about future events and management actions which are unlikely to be ascertained and verified in the same way as past results and may or may not occur. Even if the anticipated events and actions do occur, actual results are still likely to be different from the Valuation and the differences may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and validity of the Assumptions and do not express any opinion thereon.

Opinion

In our opinion, based on the foregoing, so far as the calculations are concerned, the discounted future estimated cash flows have been properly prepared in all material respects in accordance with the Assumptions set out in the Valuation.

Pan-China Certified Public Accountants LLP (Special General Partnership)

Hangzhou, the PRC
29 December 2023

* *For identification purpose only*