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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)

POTENTIAL MAJOR TRANSACTION THROUGH PUBLIC TENDER

This announcement is made by Kunming Dianchi Water Treatment Co., Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the inside information provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

THE POTENTIAL DISPOSAL

The Company has resolved to dispose of the Disposal Interest. Since the Company is a state-owned enterprise, the Disposal Interest constitutes a state-owned asset and the disposal of which is required to undergo the process of Public Tender through an approved equity exchange in accordance with the relevant PRC laws and regulations governing the disposal of state-controlled assets. The Potential Disposal will be carried out through KUEX and the successful bidder will enter into the Equity Transfer Agreement with the Company according to the relevant rules and regulations of KUEX.

As at the date of this announcement, the Minimum Consideration (being the initial bidding price) for the Disposal Interest has not yet been determined, which will be announced when the process of the formal tender commenced, the final Consideration will depend on the final bid price of the Public Tender, but will not be less than the Minimum Consideration in any event.

Upon completion of the Potential Disposal, the Company will only hold 20% equity interest in each of the Underlying Companies, the Underlying 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.

POTENTIAL IMPLICATIONS OF THE LISTING RULES

In view of the fact that the Minimum Consideration for the Disposal Interest has not yet been determined, temporarily using the audited net asset value of the Company attributable to the Disposal Interest as of 31 December 2022 of RMB272,361,500 (the final value of the Disposal Interest shall be subject to the valuation results as at the Base Date set out in the valuation report) as the basis for calculation, one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Potential Disposal is more than 25% but all of them are less than 75%, therefore, the Potential Disposal, if materialized, will constitute a major transaction of the Company subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the Potential Disposal may or may not proceed, shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

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THE POTENTIAL DISPOSAL THROUGH THE PUBLIC TENDER

1. The Disposal Interest

(i) *Zhaotong Dianchi Water*

Zhaotong Dianchi Water is a company incorporated in the PRC with limited liability on 23 October 2019 with a registered capital of RMB100 million 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. The summarized financial information of Zhaotong Dianchi Water for the two years ended 31 December 2021 and 2022 is set out below:

	For the year ended 31 December	
	2021	2022
	<i>RMB'0000</i>	<i>RMB'0000</i>
	(audited)	(audited)
Operating revenue	7,801.17	13,903.27
Net profit before tax	3,234.50	8,082.50
Net profit after tax	2,846.56	9,531.22
Total assets	78,652.72	99,133.57
Net assets	<u>16,455.13</u>	<u>25,986.35</u>

(ii) ***Yiliang Dianchi Water***

Yiliang Dianchi Water is a company incorporated in the PRC with limited liability on 4 June 2015 with a registered capital of RMB21 million 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. The summarized financial information of Yiliang Dianchi Water for the two years ended 31 December 2021 and 2022 is set out below:

	For the year ended 31 December	
	2021	2022
	<i>RMB'0000</i>	<i>RMB'0000</i>
	(audited)	(audited)
Operating revenue	893.93	875.40
Net profit before tax	388.24	345.91
Net profit after tax	279.01	523.30
Total assets	3,815.44	4,162.59
Net assets	<u>3,537.57</u>	<u>4,060.87</u>

(iii) Suijiang Dianchi Water

Suijiang Dianchi Water is a company incorporated in the PRC with limited liability on 9 December 2015 with a registered capital of RMB22 million 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. The summarized financial information of Suijiang Dianchi Water for the two years ended 31 December 2021 and 2022 is set out below:

	For the year ended 31 December	
	2021	2022
	<i>RMB'0000</i>	<i>RMB'0000</i>
	(audited)	(audited)
Operating revenue	743.99	874.78
Net profit before tax	377.25	419.95
Net profit after tax	354.40	477.93
Total assets	3,749.61	4,103.56
Net assets	<u>3,520.03</u>	<u>3,997.96</u>

2. Major Terms of the Potential Disposal

(i) Date and Procedures of the Public Tender

The Company will have to submit to KUEX the tender notice setting out, inter alia, (i) the Minimum Consideration, which will not be disclosed at the time of pre-tender and to be disclosed at the time of formal tender; (ii) the principal terms of the bidding; and (iii) the descriptions and qualifications of the potential bidders. As the Company is the controlling shareholder of the Underlying Companies, the tender process will include pretender and formal tender. The Company will submit the tender notice to KUEX as soon as practicable.

The Publication Period will be 20 Working Days from the date of the pre-tender notice and 20 Working Days from the date of the formal tender notice. During the Publication Period, qualified bidders may indicate their intention to purchase the Disposal Interest and register themselves as interested bidders. Upon the expiry of the Publication Period, KUEX will notify the Company of the identity of the successful bidder. Upon the notification of the successful bidder (being the highest bidder) by KUEX, the Company is required to enter into the Equity Transfer Agreement with such successful bidder.

As at the date of this announcement, material information of the Equity Transfer Agreement including the bidder(s), final Consideration, payment, delivery and transfer time has not been determined. The Company will enter into the Equity Transfer Agreement upon confirmation of the successful bidder and perform its relevant approval procedures and information disclosure obligations. As at the date of this announcement, no agreement has been entered into between the Group and any other party in relation to the Potential Disposal.

(ii) Consideration

As at the date of this announcement, the Minimum Consideration (being the initial bidding price) for the Disposal Interest has not yet been determined, which will be announced when the process of the formal tender commenced, the final Consideration will depend on the final bid price of the Public Tender, but will not be less than the Minimum Consideration in any event.

The payment of the Consideration shall be made in accordance with the time and method agreed in the Equity Transfer Agreement in the manner determined by the Company and transferee of the Disposal Interest.

REASONS FOR AND BENEFITS OF THE POTENTIAL DISPOSAL

The disposal will enable the Company to recover its investment and realize investment gains earlier, giving the Company greater flexibility in identifying and participating in other suitable investment opportunities.

Based on the above reasons, all Directors of the Board other than Mr. Zhou Jianbo and Ms. Wang Dongfang (the “**Dissenting Directors**”) are of the view that the Potential 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 Potential Disposal, mainly because Mr. Zhou Jianbo considered that each of the Underlying Companies remained profitable for the last three years, the aggregate audited net profit of the Underlying Companies for the year ended 31 December 2022 accounted for approximately 30% of the Group’s consolidated net profit, the Underlying 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 Underlying 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 opinions of the Dissenting Directors. All Directors of the Board other than the Dissenting Directors are of the unanimous view that although the Underlying Companies contribute to a certain percentage of the Group's consolidated net profit and have considerable scale of operation, the disposal will enable the Company to have more capital to capitalize on other investment opportunities for greater investment returns. In addition, upon completion of the disposal, the Company will still hold 20% equity interest in each of the Underlying Companies, which will maintain certain contribution of the Underlying Companies to the consolidated financial results of the Group.

INFORMATION ON THE COMPANY

The Company is a leading municipal wastewater treatment and reclaimed water supply services provider in Yunnan Province, the PRC, an integrated water-related services (including running water supply service) provider and a core enterprise implementing the PRC's strategic goal to treat pollutants at Dianchi Lake.

POTENTIAL IMPLICATIONS OF THE LISTING RULES

In view of the fact that the Minimum Consideration for the Disposal Interest has not yet been determined, temporarily using the audited net asset value of the Company attributable to the Disposal Interest as of 31 December 2022 of RMB272,361,500 (the final value of the Disposal Interest shall be subject to the valuation results as at the Base Date set out in the valuation report) as the basis for calculation, one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Potential Disposal is more than 25% but all of them are less than 75%, therefore, the Potential Disposal, if materialized, will constitute a major transaction of the Company subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the Potential Disposal may or may not proceed, shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

DEFINITIONS

“Base Date”	the base date for audit and valuation of the Potential Disposal, being 28 February 2023
“Board”	the board of Directors of the Company
“Company”	Kunming Dianchi Water Treatment Co., Ltd. (昆明滇池水务股份有限公司), a joint stock company established in the PRC with limited liability on 23 December 2010, and its H Shares are listed on the Stock Exchange (stock code: 3768)
“Consideration”	the consideration for the Disposal Interest payable by the transferee under the Equity Transfer Agreement
“Director(s)”	director(s) of the Company

“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 Agreement”	an equity transfer agreement to be entered into between the Company and the successful bidder of the Public Tender in respect of the Disposal Interest according to the rules and regulations of KUEX
“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)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Minimum Consideration”	the minimum consideration for the Disposal Interest, as of the date of this announcement, the Minimum Consideration has not yet been determined, which will be announced when the process of the formal tender commenced
“Potential Disposal”	the potential disposal of the Disposal Interest by the Company
“PRC”	the People’s Republic of China
“Public Tender”	the public tender for the Potential Disposal through KUEX
“Publication Period”	the publication period (including the pre-tender period and the formal tender period) for the Public Tender during which qualified bidders may indicate their intention to purchase the Disposal Interest and register themselves as interested bidders
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Suijiang Dianchi Water”	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

“Underlying 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
“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”	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”	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, 5 September 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 Ms. Wang Dongfang, Ms. Zheng Dongyu and Mr. Ong King Keung, as independent non-executive Directors.

* *for identification purpose only*