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Kunming Dianchi Water Treatment Co., Ltd.

昆明滇池水务股份有限公司

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 3768)

DISCLOSEABLE TRANSACTION DISPOSAL OF 100% EQUITY INTEREST IN A SUBSIDIARY

THE DISPOSAL

On 15 September 2023 (after trading hours), the Company (as transferor), the People's Government of Malong District, Qujing City (as Transferee I), Qujing Zefeng Water (as Transferee II) (Transferee I and Transferee II are collectively referred to as the "**Transferees**") and Qujing Dianchi Water (as the Target Company) entered into the Equity Transfer Agreement, pursuant to which, the Company has conditionally agreed to sell and the Transferees have conditionally agreed to purchase 100% equity interest in Qujing Dianchi Water for a Consideration comprising the equity transfer price, the borrowings provided by the Company to Qujing Dianchi Water, the dividends payable by Qujing Dianchi Water to the Company and 50% of the profit or loss for the Transitional Period to be determined based on the audit for the Transitional Period, of which the profit or loss for the Transitional Period shall be subject to final audit. The Board estimates that the Consideration will not exceed RMB151,153,900 based on the historical data of Qujing Dianchi Water and the timing of the completion of the transaction. In the event that the timing of the transaction is delayed or the actual profit or loss for the Transitional Period are different from the Board's estimate, resulting in the Consideration for the transaction exceeding RMB151,153,900 as estimated, the Company will make a separate announcement in due course.

Upon Completion, Qujing Dianchi Water will cease to be a subsidiary of the Company, the Group will cease to have any equity interest in Qujing Dianchi Water and its financial results will cease to be consolidated in the accounts of the Group.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Disposal are more than 5% but all are less than 25%, the Disposal constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

On 15 September 2023 (after trading hours), the Company (as transferor), the People’s Government of Malong District, Qujing City (as Transferee I), Qujing Zefeng Water (as Transferee II) (Transferee I and Transferee II are collectively referred to as the “**Transferees**”) and Qujing Dianchi Water (as the Target Company) entered into the Equity Transfer Agreement, pursuant to which, the Company has conditionally agreed to sell and the Transferees have conditionally agreed to purchase 100% equity interest in Qujing Dianchi Water for a Consideration comprising the equity transfer price, the borrowings provided by the Company to Qujing Dianchi Water, the dividends payable by Qujing Dianchi Water to the Company and 50% of the profit or loss for the Transitional Period to be determined based on the audit for the Transitional Period, of which the profit or loss for the Transitional Period shall be subject to final audit. The Board estimates that the Consideration will not exceed RMB151,153,900 based on the historical data of Qujing Dianchi Water and the timing of the completion of the transaction. In the event that the timing of the transaction is delayed or the actual profit or loss for the Transitional Period are different from the Board’s estimate, resulting in the Consideration for the transaction exceeding RMB151,153,900 as estimated, the Company will make a separate announcement in due course.

Upon Completion, Qujing Dianchi Water will cease to be a subsidiary of the Company, the Group will cease to have any equity interest in Qujing Dianchi Water and its financial results will cease to be consolidated in the accounts of the Group.

DETAILS OF THE EQUITY TRANSFER AGREEMENT

Salient terms of the Equity Transfer Agreement are summarised below:

Date	15 September 2023 (after trading hours)
Parties	<ul style="list-style-type: none"> (i) the Company (as the seller); (ii) the People’s Government of Malong District, Qujing City (as Transferee I); (iii) Qujing Zefeng Water (as Transferee II, together with Transferee I, collectively referred to as the Transferees); and (iv) Qujing Dianchi Water (as the Target Company).
Subject of the Disposal	The Company conditionally agreed to sell and the Transferees conditionally agreed to acquire 100% equity interest in Qujing Dianchi Water. As at the date of this announcement, Qujing Dianchi Water is a wholly-owned subsidiary of the Company. For details of Qujing Dianchi Water, please refer to the section headed “Information on the Target Company” in this announcement.

Consideration

The Consideration includes the equity transfer price, the borrowings provided by the Company to Qujing Dianchi Water, the dividends payable by Qujing Dianchi Water to the Company and 50% of the profit or loss for the Transitional Period to be determined based on the audit for the Transitional Period, of which the profit or loss for the Transitional Period shall be subject to final audit. In particular, it includes:

- (i) the equity value of RMB82.6 million as at the Base Date, as confirmed by appraisal;
- (ii) the borrowings provided by the Company to Qujing Dianchi Water of RMB37.7439 million;
- (iii) dividends payable to the Company of RMB28 million as confirmed in the audited accounts of Qujing Dianchi Water as at the Base Date;
- (iv) 50% of the profit or loss generated by Qujing Dianchi Water during the Transitional Period. This means that the Company and the Transferees shall each share 50% of the revenue generated and loss incurred during the Transition Period. During the Transitional Period, the governmental policy of water tariff will no longer apply. Based on the management account of Qujing Dianchi Water and the timing of the transaction, the amount of revenue expected to be shared by the Company during the Transitional Period will not exceed RMB2.81 million. The final amount shall be subject to the amount to be determined based on the audit for the Transitional Period.

The Board estimates that the aggregate Consideration will not exceed RMB151,153,900 based on the historical data of Qujing Dianchi Water and the timing of the completion of the transaction. In the event that the timing of the transaction is delayed or the actual profit or loss for the Transitional Period are different from the Board's estimate, resulting in the aggregate Consideration for the transaction exceeding RMB151,153,900 as estimated, the Company will make a separate announcement in due course.

Payment of Consideration

- (i) Within 5 working days from the effective date of the Equity Transfer Agreement, the Transferees shall pay the price of RMB82.6 million to the Company (the “**First Installment**”);

- (i) Within 15 working days from the date of completion of the registration of change of shareholding, the Transferees shall transfer a sum of RMB65.7439 million to Qijing Dianchi Water, which in turn shall pay the sum of RMB65.7439 million to the Company within the aforesaid time limit (or the Transferees shall pay such sum directly to the Company on behalf of Qijing Dianchi Water) (the “**Second Installment**”); and
- (ii) Upon completion of transfer of the operation and management rights, the Company and the Transferees shall jointly engage an auditor to conduct audit for the Transitional Period and complete the finalization of the audit report for the Transitional Period within 30 calendar days. Payment of the amount of profit or loss confirmed based on the audit report of the Transitional Period shall be completed within 5 business days after confirmation by the Company and the Transferees (the “**Third Installment**”).

Conditions precedent for
Completion

The Equity Transfer Agreement shall become effective upon the fulfillment of all conditions precedent, which include (i) the Transferees having obtained relevant governmental approval, authorization or consent in respect of the transaction; and (ii) the Company having obtained the approval of the higher authorities in respect of the transaction and completed the corresponding approval procedures, etc.

Transfer

- (i) Within 5 working days after receipt of the First Installment, the Company shall cooperate in completing the registration procedures for change of shareholding in Qijing Dianchi Water in accordance with the terms of the Equity Transfer Agreement.
- (ii) Within 5 working days from the date of receipt of the Second Installment by the Company, the Transferees shall issue relevant letters and assign an operation and management team to take over relevant projects operated by Qijing Dianchi Water, and the Company shall cooperate with the Transferees in completing the relevant procedures for the transfer of assets, financial information and operation and management rights of Qijing Dianchi Water. The Transferees shall cooperate in completing the change of existing legal representative of Qijing Dianchi Water in accordance with relevant provisions of the Equity Transfer Agreement.

The date on which the Company, the Transferees and Qujing Dianchi Water sign and confirm the list of transfer of operation and management rights shall be the date of transfer of operation and management rights. On the date of transfer of operation and management rights, the Company and the Transferees shall jointly change and destroy the existing seal of Qujing Dianchi Water. On the date of transfer of operation and management rights, the Company and the management personnel deployed by the Company to Qujing Dianchi Water will no longer be responsible for the operation and management of Qujing Dianchi Water and the operation projects thereunder.

Completion

Completion of the Disposal will take place on the date of transfer of operation and management rights. Upon Completion of the Disposal, the Group will cease to hold any equity interest in Qujing Dianchi Water and Qujing Dianchi Water will cease to be accounted for as a subsidiary of the Group.

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 Transferees

The People's Government of Malong District, Qujing City (Transferee I) is a governmental authority in the PRC. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Transferee I and its ultimate beneficial owners are independent third parties.

Qujing Zefeng Water Co., Ltd. (Transferee II) is owned as to 100% by the Water Bureau of Malong District, Qujing City and is principally engaged in production and supply of water. Transferee I has designated Transferee II as the holder of the 100% equity interest in Qujing Dianchi Water to be transferred to Transferee I. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Transferee II and its ultimate beneficial owners are independent third parties.

Information on the Target Company

Qijing Dianchi Water, the Target Company, is a company incorporated in the PRC with limited liability and is principally engaged in wastewater treatment and running water supply businesses. As at the date of this announcement, it is a wholly-owned subsidiary of the Company. The summarised financial information of Qijing Dianchi Water for the two years ended 31 December 2021 and 2022 and the six months ended 30 June 2023 is set out below:

	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 taxation	927.57	1,342.03	422.68
Net profit after taxation	<u>794.19</u>	<u>1,651.70</u>	<u>316.66</u>

The audited net asset value of the Target Company as at the Base Date (i.e. 31 December 2022) was approximately RMB78,577,200, and the unaudited net asset value as at 30 June 2023 as confirmed based on the internal management account was approximately RMB78,760,300.

DETERMINATION OF CONSIDERATION FOR DISPOSAL

The Consideration is determined on normal commercial terms after arm's length negotiations between the seller and the purchasers with reference to (i) the appraised value of the entire shareholders' equity of Qijing Dianchi Water by a valuer; (ii) the borrowings and unpaid dividends owed by Qijing Dianchi Water to the Company, which will be paid by Qijing Dianchi Water directly to the Company as agreed in the agreement or by the Transferees on behalf of Qijing Dianchi Water directly to the Company; and (iii) the final amount of the profit or loss for the Transitional Period which is subject to subsequent audit for the Transitional Period based on an estimate of the profit or loss of Qijing Dianchi Water for the Transitional Period.

In particular, according to the asset valuation report issued by Beijing Yachao Asset Appraisal, the valuer adopted the income based approach to value the entire shareholders' equity of Qijing Dianchi Water, and the final valuation conclusion was that as at the Base Date, the appraised value of the entire shareholders' equity of Qijing Dianchi Water was RMB82.60 million, representing an appreciation of RMB4.0228 million or 5.12%.

As the valuation of the entire shareholders' equity of Qujing Dianchi Water is conducted under the income based 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:

1. Basic Assumptions

(a) Transaction assumption

Transaction assumption assumes all assets to be valued are in the course of transaction and the valuation of valuer 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 asset going concern

The assumption of asset going concern 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 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

Going concern assumption assumes that Qujing Dianchi Water operates as a going concern and in the current manner.

2. General Assumptions

- (a) There will be no significant changes in the socio-economic environment in which Qujing Dianchi Water is located, and there will be no significant changes in relevant laws, regulations and policies of China and the region in which Qujing Dianchi Water is located;
- (b) It is assumed that the information provided by the Company and Qujing Dianchi Water is true, complete and reliable, and that there are no other defective matters or contingencies that shall be provided but have not been provided, or cannot be identified by the asset appraisal professionals despite necessary appraisal procedures, which may affect the appraisal conclusion;

- (c) It is assumed that no force majeure or unforeseeable event affecting the operation of Qujing Dianchi Water will occur after the Base Date;
- (d) It is assumed that there will be no material changes in the laws and regulations relating to the operation of Qujing Dianchi Water during the earnings period, other than those that have been promulgated by the government and those that have been promulgated but yet to be implemented as of the Base Date which will affect the operation of Qujing Dianchi Water;
- (e) It is assumed that the accounting policies adopted by Qujing Dianchi Water during the future earnings period will be in line with those at the Base Date in material respects, and will be consistent and comparable;
- (f) It is assumed that the operator of Qujing Dianchi Water is responsible and the management is capable of assuming its responsibilities, there will be no significant changes in the key management and technical personnel of Qujing Dianchi Water based on their positions as at the Base Date that would affect the changes in its operations, the management team will develop steadily and there will be no significant changes in the management system that would affect its operations in the future earnings periods;
- (g) It is assumed that there will be no litigations, mortgages, guarantees, etc. that will have a material impact on the results of operations of Qujing Dianchi Water in the future earnings period; and
- (h) There will be no other force majeure and unforeseeable factors that will have a material adverse effect on Qujing Dianchi Water.

3. Specific Assumptions

- (a) Qujing Dianchi Water's business scope, operation method and management model will be adjusted and innovated in a timely manner in line with the development of the market and science and technology, while maintaining consistency;
- (b) The assets and liabilities declared by Qujing Dianchi Water are free from disputes over property titles and other economic disputes;
- (c) The production and operation of Qujing Dianchi Water and the economic activities related to such production and operation are in compliance with national laws and regulations;
- (d) There will be no significant changes in loan interest rates, value-added tax and surcharge rates, and enterprise income tax rates in the future;
- (e) The appraisal does not take into account the impact on the value of Qujing Dianchi Water caused by its external equity investment projects occurred after the Base Date; and

- (f) Except for investments in fixed assets for which there is conclusive evidence at the Base Date that there will be changes in production capacity in the future, it is assumed that Qujing Dianchi Water will not make any significant investments in fixed assets that will affect its operations in the future earnings period, and the production capacity of the enterprise's products will be estimated based on the conditions at the Base Date;
- (g) It is assumed that the amount of taxable income of Qujing Dianchi Water in the future earnings period will be basically the same as the total profit, and there is no significant adjustment for permanent differences and timing differences;
- (h) It is assumed that the operating cash inflows and cash outflows of Qujing Dianchi Water will occur evenly in the future earnings periods and there will not be a concentration of revenue recognition at a particular time of the year;
- (i) It is assumed that the accounts receivable of Qujing Dianchi Water related to subsidies receivable from the People's Government of Malong District, Qujing City as of the Base Date in respect of wastewater treatment fees and running water charges in previous years will be properly recovered in the future; and
- (j) It is assumed that Qujing Dianchi Water will be able to collect the wastewater treatment fee, running water charges and other relevant fees from the People's Government of Malong District, Qujing City on time in the future forecast period.

4. Major Commercial Assumptions

- (a) Based on the term of concession right of Qujing Dianchi Water (with expiry date of 30 July 2045), the forecast period of the valuation has been assumed to be from 1 January 2023 to 30 July 2045;
- (b) It is assumed that during the forecast period, Qujing Dianchi Water will be principally engaged in running water supply and wastewater treatment businesses in Qujing City, Yunnan Province and will only provide the corresponding services under the existing Concession Agreement for Urban Wastewater Treatment Projects (《城市污水處理項目特許經營協議》) and its supplemental agreements (individually or collectively, the “**Concession Agreements**”);
- (c) Assumptions related to revenue: Operating revenue mainly includes revenue relating to running water supply and wastewater treatment. The average revenue for the forecast period is approximately RMB23,157,200 per year from 2023 to 2027 and approximately RMB23,864,000 per year from 2028 to July 2045, without taking into account the impact of changes in water prices on revenue due to possible inflation, government price adjustments and other reasons;
- (d) Assumptions related to operating costs: Operating costs mainly include direct material (chemical costs), labour costs and power costs, etc. The average unit operating costs for the forecast period are approximately RMB0.96 per tonne from January 2023 to 2027 and RMB0.89 per tonne from 2028 to July 2045, without taking into account increases in unit variable cost due to reasons such as inflation;

- (e) Assumptions related to period expenses and tax: The period expenses are mainly administrative expenses, which mainly include staff salaries, social insurance, office expense, etc. Based on the historical information of Qujing Dianchi Water, the concession agreements and the actual situation of the existing projects under construction during the trial operation period, the annual average administrative expenses for the forecast period are estimated to be approximately RMB2,521,200 per annum, which will remain basically unchanged during the forecast period; no selling expenses are expected to be incurred during the forecast period; during the forecast period, Qujing Dianchi Water will not require external financing and no finance costs will be incurred; the tax obligations and tax incentives available to Qujing Dianchi Water will remain unchanged during the forecast period;
- (f) Enterprise income tax: 25%;
- (g) Depreciation and amortisation and capital expenditure: The depreciation period of fixed assets and the amortisation period of intangible assets are determined with reference to the accounting policy on depreciation of fixed assets and the amortisation policy on intangible assets of Qujing Dianchi Water, taking into account the economic useful life of fixed assets. The expected useful life of fixed assets varies from 5 to 30 years depending on the category. Capital expenditure mainly considers the renewal of fixed assets, machinery and equipment, electronic equipment and vehicles; and
- (h) The assumed annual discount rate of cash flows (post-tax) has been set at 5.98% (at an income tax rate of 25%), 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 discounted future estimated cash flows in the valuation report prepared by Beijing Yachao Asset 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.

Mazars CPA Limited (“**Mazars**”) 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 Beijing Yachao Asset Appraisal was based. A confirmation letter issued by Mazars is set out in Appendix II to this announcement.

The qualifications of Beijing Yachao Asset Appraisal and Mazars are as follows:

EXPERTS AND CONSENTS

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

Name	Qualification
Mazars	Certified Public Accountants, Hong Kong
Beijing Yachao Asset Appraisal	Independent professional valuer

Each of Beijing Yachao Asset Appraisal and Mazars has given and has not withdrawn its respective written consent to the publication of the announcement with 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 Beijing Yachao Asset Appraisal and Mazars is a third party independent of the Group and is not a connected person of the Group. As at the date of the announcement, neither Beijing Yachao Asset Appraisal nor Mazars 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

In accordance with the requirements of the “Integration of Water Supply and Drainage in Central Urban Areas of Qujing City (《曲靖市中心城市供排水一體化》)”, the “Three-Year Action Plan for Accelerating the High-Quality Development of New Urbanization in Qujing City (2022-2024) (《曲靖市加快新型城鎮化高質量發展三年行動計劃(2022-2024年)》)” and other relevant documents, the People’s Government of Malong District, Qujing City, Yunnan Province intends to include the relevant projects invested in, constructed and operated by Qujing Dianchi Water into its centralized management plan, and after negotiations, the People’s Government of Malong District, Qujing City decided to buy back relevant projects operated and managed by the Target Company by way of acquiring the equity interest of Qujing Dianchi Water. The Disposal will allow the Company to recover its investment and earnings in advance, thereby providing the Company with greater flexibility in identifying and participating in other suitable investment opportunities.

Based on the above reasons, the Directors other than Mr. Zhou Jianbo consider that the terms of the Disposal and the Equity Transfer Agreement are on normal commercial terms and 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 abstained from voting mainly because he considered that Qujing Dianchi Water had been profitable for the past two years and there was no continuous net outflow of operating cash flow and the Disposal was not conducive to the long-term development of the Company.

All Directors of the Board have given due and careful consideration to the Disposal and the opinions of Mr. Zhou Jianbo, our Director. As the People’s Government of Malong District, Qujing City, Yunnan Province intends to include the relevant projects invested in, constructed and operated by Qujing Dianchi Water into its centralized management plan for the purpose of re-planning, operation and management of the relevant projects in view of the needs of its urban management plan, after negotiations, the People’s Government of Malong District, Qujing City, Yunnan Province decided to buy back relevant projects operated and managed by the Target Company by way of acquiring the equity interest of Qujing Dianchi Water.

FINANCIAL IMPACT OF THE DISPOSAL AND USE OF PROCEEDS

Upon Completion, Qujing Dianchi Water will cease to be consolidated into the accounts of the Group. With reference to the net asset value of Qujing Dianchi Water as at the Base Date of approximately RMB78,577,200, the estimated net gain before taxation of the Disposal is approximately RMB4,022,800. The actual gain or loss on the Disposal may differ from the above as the profit or loss of the Target Company for the Transitional Period has not yet been finalised and is subject to final audit by the auditors.

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

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Disposal are more than 5% but all are less than 25%, the Disposal constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

“Base Date”	the audit and valuation base date of the Disposal, being 31 December 2022
“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 total consideration for the Disposal as confirmed under the Equity Transfer Agreement
“Directors”	the director(s) of the Company

“Disposal”	the disposal of 100% equity interest in Qujing Dianchi Water by the Company to the Transferees under the Equity Transfer Agreement
“Equity Transfer Agreement”	the equity transfer agreement dated 15 September 2023 between the Company, the People’s Government of Malong District, Qujing City, Qujing Zefeng Water and Qujing Dianchi Water in relation to the Disposal
“Qujing Dianchi Water” or “Target Company”	Qujing Dianchi Water Treatment Co., Ltd.*(曲靖滇池水務有限公司), a company with limited liability incorporated in the PRC, which is a wholly-owned subsidiary of the Company as of the date of this announcement
“Group”	the Company and its subsidiaries
“independent third party”	a third party independent of the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“People’s Government of Malong District, Qujing City” or “Transferee I”	the People’s Government of Malong District, Qujing City, Yunnan Province, a governmental authority of the PRC
“Qujing Zefeng Water” or “Transferee II”	Qujing Zefeng Water Co., Ltd.*(曲靖澤豐水務有限公司), a company with limited liability incorporated in the PRC, which is directly owned as to 100% by the Water Bureau of Malong District, Qujing City, and is a third party independent of the Company and its connected persons
“Transferees”	Transferee I and Transferee II are collectively referred to as the Transferees unless the context requires otherwise. Transferee I and Transferee II are jointly and severally liable to the Company for the Transferees’ obligations and liabilities under the Equity Transfer Agreement.
“PRC” or “China”	the People’s Republic of China
“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

“Transitional Period”	the period from the Base Date to the date on which each of the Company, the Transferees and Qijing Dianchi Water signs and confirms the list of transfer of operation and management rights
“Beijing Yachao Asset Appraisal”	Beijing Yachao Asset Appraisal Co., Ltd.* (北京亞超資產評估有限公司), a company with limited liability incorporated in the PRC, which is engaged to provide valuation services in respect of the value of the entire shareholders’ equity of Qijing Dianchi Water in connection with the Disposal, and is an independent third party
“%”	per cent.

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

Kunming, the PRC, 15 September 2023

As of 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

APPENDIX I LETTER FROM THE BOARD

15 September 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 or Madams,

DISCLOSEABLE TRANSACTION IN RELATION TO THE DISPOSAL OF 100% EQUITY INTEREST IN A SUBSIDIARY

Reference is made to the valuation report dated 13 June 2023 prepared by Beijing Yachao Asset Appraisal Co., Ltd. in relation to the valuation (the “**Valuation**”) of 100% shareholders’ equity of Qujing Dianchi Water Treatment Co., Ltd. (曲靖滇池水務有限公司) as at 31 December 2022. The Valuation is prepared under the income based approach, which involves the calculations of discounted future estimated cash flows, 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 based on which the Valuation has been prepared, and reviewed the Valuation for which Beijing Yachao Asset Appraisal Co., Ltd. is responsible. We have also considered the letter of confirmation from auditor of our Company, Mazars CPA Limited, regarding whether the Valuation was compiled properly so far as the calculations are concerned. We hereby confirm that the calculations of discounted future estimated cash flows in the Valuation were made after due and careful enquiry.

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

APPENDIX II LETTER OF CONFIRMATION FROM THE AUDITOR

INDEPENDENT ASSURANCE REPORT ON THE CALCULATIONS OF THE DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE EQUITY INTERESTS IN QUJING DIANCHI WATER

**TO THE BOARD OF DIRECTORS OF KUNMING DIANCHI WATER TREATMENT CO., LTD
(THE “COMPANY”)**

We refer to the discounted future estimated cash flows of Qujing Dianchi Water on which the business valuation dated 13 June 2023 prepared by Beijing YaChao Assets Appraisal Co., Ltd. (the “Valuation”) with respect to the valuation of the entire equity interest of Qujing Dianchi Water as at 31 December 2022 is based. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and was included in the announcement dated 15 September 2023 issued by the Company in connection with the discloseable transaction in relation to the disposal of 100% equity interest in Qujing Dianchi Water (the “Announcement”).

DIRECTORS’ RESPONSIBILITY FOR THE DISCOUNTED FUTURE ESTIMATED CASH FLOWS

The directors of the Company (the “Directors”) are responsible for the preparation of the discounted future estimated cash flows of Qujing Dianchi Water in accordance with the bases and assumptions determined by the Directors and set out in the Announcement (the “Assumptions”). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable 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 is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

We apply 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 the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

REPORTING ACCOUNTANT’S RESPONSIBILITY

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based, and to report solely to you, as a body, and for no other purpose. We do not assume responsibility toward or accept liability to any other person for the contents of this letter.

We conducted our work in accordance with the terms of our engagement and 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 comply with ethical requirements and plan and perform our work to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions made by the Directors. Our works consisted primarily of checking the arithmetical accuracy of the calculations of the discounted future estimated cash flows prepared based on the Assumptions made by the Directors. Our work does not constitute any valuation of Qujing Dianchi Water.

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

OPINION

Based on the foregoing, in our opinion, so far as the calculations are concerned, the discounted future estimated cash flows have been properly compiled, in all material respects, in accordance with the Assumptions.

Mazars CPA Limited

Certified Public Accountants

Hong Kong

15 September 2023