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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**

Reference is made to the announcement of the Company dated 10 November 2023 in relation to the proposed disposal of 100% equity interest in a subsidiary of 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 100% equity interest in Hongyu Thermal Power by the Company. According to the requirements of relevant laws and regulations and the relevant trading rules of KUEX, on 20 December 2023 (after trading hours), the Company (as the transferor), Hunan Zhihong Paper (as the Transferee) and Hongyu Thermal Power (as the Target Company) entered into the Equity Transfer Agreement, pursuant to which the Company has conditionally agreed to sell and the Transferee has conditionally agreed to purchase 100% equity interest in Hongyu Thermal Power, at a Consideration comprising the equity transfer price of RMB43.5787 million and the principal amount of the loan of RMB5.02 million provided by the Company to Hongyu Thermal Power together with interest thereon, of which the interest on the loan shall be determined based on the amount calculated up to the date of actual repayment, and it is estimated that the total Consideration will not exceed RMB48.756 million. In the event that there is any difference between the final interest on the loan and the estimation by the Board, resulting in the total Consideration for the transaction exceeding the estimated amount of RMB48.756 million, the Company will make further announcement in due course.

Upon completion of the Disposal, the Company will no longer hold any equity interest in Hongyu Thermal Power, Hongyu Thermal Power will cease to be a subsidiary of the Company, and its financial results will cease to be consolidated into the consolidated financial statements 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 is more than 5% but all of them 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 20 December 2023 (after trading hours), the Company (as the transferor), Hunan Zhihong Paper (as the Transferee) and Hongyu Thermal Power (as the Target Company) entered into the Equity Transfer Agreement, pursuant to which the Company has conditionally agreed to sell and the Transferee has conditionally agreed to purchase 100% equity interest in Hongyu Thermal Power, at a Consideration comprising the equity transfer price of RMB43.5787 million and the principal amount of the loan of RMB5.02 million provided by the Company to Hongyu Thermal Power together with interest thereon, of which the interest on the loan shall be determined based on the amount calculated up to the date of actual repayment, and it is estimated that the total Consideration will not exceed RMB48.756 million. In the event that there is any difference between the final interest on the loan and the estimation by the Board, resulting in the total Consideration for the transaction exceeding the estimated amount of RMB48.756 million, the Company will make further announcement in due course.

Upon completion of the Disposal, the Company will no longer hold any equity interest in Hongyu Thermal Power, Hongyu Thermal Power will cease to be a subsidiary of the Company, and its financial results will cease to be consolidated into the consolidated financial statements of the Group.

#### **DETAILS OF THE EQUITY TRANSFER AGREEMENT**

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

Date: 20 December 2023 (after trading hours)

Parties: (i) the Company (as the transferor);  
(ii) Hunan Zhihong Paper (as the Transferee); and  
(iii) Hongyu Thermal Power (as the Target Company).

Subject of the Disposal: The Company has conditionally agreed to sell and the Transferee has conditionally agreed to purchase 100% equity interest in Hongyu Thermal Power. As at the date of this announcement, Hongyu Thermal Power is a wholly-owned subsidiary of the Company. For details of Hongyu Thermal Power, please refer to the section headed “Information on the Target Company” in this announcement.

Consideration: The Consideration comprises (i) the equity transfer price of RMB43.5787 million; and (ii) the principal amount of the loan of RMB5.02 million provided by the Company to Hongyu Thermal Power together with interest thereon (interest was approximately RMB91,500 as of 30 November 2023), of which the interest on the loan shall be determined based on the amount calculated up to the date of actual repayment.

The Board estimated that the total Consideration will not exceed RMB48.756 million. In the event that there is any difference between the final interest on the loan and the estimation by the Board, resulting in the total Consideration for the transaction exceeding the estimated amount of RMB48.756 million, the Company will make further announcement in due course.

- Payment of Consideration:
- (i) The Transferee shall pay the equity transfer price of RMB43.5787 million in one lump sum within 2 Working Days from the date of execution of the Equity Transfer Agreement. The equity transfer price shall be settled through the fund supervision account of KUEX. Upon receipt of the equity transfer price from the Transferee, KUEX shall, after confirming that the trading service fees of the Company and the Transferee have been paid, transfer the trading price to the bank account designated by the Company in accordance with the relevant requirements; and
  - (ii) the principal amount of the loan of RMB5.02 million provided by the Company to Hongyu Thermal Power together with interest thereon shall be repaid by Hongyu Thermal Power to the Company in one lump sum within three months from the date of execution of the Equity Transfer Agreement (or shall be paid by the Transferee on behalf of Hongyu Thermal Power in one lump sum to the Company within the aforesaid period), and the interest on the loan shall be calculated at the interest rate of the original loan contract (i.e. 4.35% per annum) from the date of execution of the Equity Transfer Agreement and up to the date of actual payment, and shall be subject to the provision of a full guarantee recognized by the Company.

Conditions Precedent to Completion:

Subject to the fulfillment of all conditions set out below, the Company and Hongyu Thermal Power will cooperate with the Transferee in completing the registration of change of shareholding in the Target Company in accordance with relevant terms, with the registration of change of shareholding to be completed no later than 31 January 2024:

- (i) the Company having received the equity transfer price as agreed in the Equity Transfer Agreement;
- (ii) the Transferee having obtained documents from the People's Government of Liuyang or its authorized organization (entity) approving the examination of the Transferee's eligibility as a party to the transfer; and
- (iii) the Transferee having repaid on behalf of Hongyu Thermal Power all principal amount of the loan of RMB80 million provided by a commercial bank to Hongyu Thermal Power together with interest thereon by 31 December 2023, thereby discharging the Company and other subsidiaries of the Company from their joint and several liabilities for repayment, security and guarantee in respect of the loan from the commercial bank.

Transfer:	<p>Within 2 Working Days after completion of payment of the equity transfer price by the Transferee in accordance with the terms of the Equity Transfer Agreement, the Transferee will assign an operation and management team to take over Hongyu Thermal Power. The Company will issue the shareholders' decision letter of Hongyu Thermal Power in accordance with relevant terms, change the legal representatives, executive directors and supervisors of Hongyu Thermal Power and assist in completing the change of industrial and commercial registration and the handover of all assets, permits and licenses, seals and information in accordance with the terms of the Equity Transfer Agreement or within a period to be otherwise agreed by both parties.</p> <p>The date on which both the Company and the Transferee sign and confirm on the list of transfer of operation and management rights in accordance with relevant terms shall be the date of transfer of operation and management rights, and from the date of takeover of operation by the Transferee, the Company and the management personnel assigned by the Company will no longer be responsible for the operation and management of Hongyu Thermal Power.</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, and the Transferee shall be entitled to or assume any gain or loss and risks incurred during the transitional period in accordance with the provisions of relevant laws and regulations.</p>
Completion:	<p>Completion of the Disposal shall take place on the date of completion of registration of shareholding change. Upon completion of the Disposal, the Group will no longer hold any equity interest in Hongyu Thermal Power and Hongyu Thermal Power will cease to be accounted for as a subsidiary of the Group.</p>

## 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

Hunan Zhihong Paper Co., Ltd.\* (湖南志鴻紙業有限公司), a company incorporated in the PRC with limited liability. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, based on the information currently available to the Company, as at the date of this announcement, the Transferee is ultimately owned by six natural person shareholders, of which 70% of the equity interest of the Transferee is owned by Liuyang Hewang Enterprise Management Consulting Co., Ltd.\* (瀏陽合旺企業管理諮詢有限公司) (which is ultimately owned as to 36.8% by Mr. Wu Shang (吳尚), 36.8% by Mr. Wu Pan (吳攀) and 26.4% by Mr. Wu Zhiping (吳志平)), and the other 30% of the equity interest of the Transferee is owned by Liuyang Heteng Enterprise Management Consulting Co., Ltd.\* (瀏陽合騰企業管理諮詢有限公司) (which is ultimately owned as to 70% by Mr. Peng Long (彭龍), 20% by Ms. Peng Feng (彭鳳) and 10% by Ms. Li Xiaoling (李小玲)). The Transferee and its ultimate beneficial owners are independent third parties.

### Information on the Target Company

Hongyu Thermal Power, the Target Company, is a company incorporated in the PRC with limited liability on 12 March 2008 with a registered capital of RMB30 million and is principally engaged in power supply, heat generation and sales. As at the date of this announcement, Hongyu Thermal Power is a wholly-owned subsidiary of the Company. The summarised financial information of Hongyu Thermal Power for the two years ended 31 December 2021 and 2022 and the ten months ended 31 October 2023 is set out below:

	For the year ended 31 December		For the ten months ended 31 October
	2021	2022	2023
	RMB'0000	RMB'0000	RMB'0000
	(Audited)	(Audited)	(Unaudited)
Net (loss) before taxation	(100.79)	(701.78)	(75.31)
Net (loss) after taxation	(108.46)	(703.22)	(75.31)

The audited net asset value of the Target Company as at the Base Date was RMB20.853 million, and the unaudited net asset value as at 31 October 2023 as confirmed based on the internal management account was approximately RMB20.6916 million.

## **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 entire shareholders' equity interests in Hongyu Thermal Power by a valuer; and (ii) the principal of borrowings and interest thereon owed by Hongyu Thermal Power to the Company.

According to the asset valuation report issued by Kunming Boyang Asset Appraisal Co., Ltd., the valuer has adopted income approach and asset-based approach for the valuation of the entire equity interests in Hongyu Thermal Power in accordance with the requirements of relevant laws and regulations of the PRC. The future revenue of Hongyu Thermal Power is significantly affected by the production capacity of the paper mills in the region where it operates and the environmental protection policies of the PRC, and the future revenue is subject to uncertainty. Based on the analysis of the valuation conclusion and the amount of data used and the data analysis, the valuer is of the view that the asset-based approach can reflect the value of Hongyu Thermal Power in an objective and reasonable manner, and therefore has adopted the valuation results of the asset-based approach as the final valuation conclusion. The appraised value of the entire equity interests in Hongyu Thermal Power was finally determined as RMB43.5787 million as at the Base Date under asset-based approach, and the Board has only made reference to the appraised value determined under asset-based approach in determining the floor price for the Public Tender.

## **REASONS FOR AND BENEFITS OF THE DISPOSAL**

The Disposal will facilitate the Company to put more focus on its advantageous main business, and enable the Company to recover its investment earlier, giving the Company greater flexibility in identifying and participating in other suitable investment opportunities.

Based on the above reasons, all 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.

## **FINANCIAL IMPACT OF THE DISPOSAL AND USE OF ITS PROCEEDS**

Upon completion of the Disposal, Hongyu Thermal Power will cease to be consolidated into the consolidated financial statements of the Group. With reference to the total amount of identifiable net assets of Hongyu Thermal Power at fair value calculated on a continuous basis since the date of consolidation, the estimated net loss before tax of the Disposal is approximately RMB2,733,700. The actual gain or loss on the Disposal shall be subject to the calculation after completion of the Disposal. 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 is more than 5% but all of them 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 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 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 of 100% equity interest of Hongyu Thermal Power payable by the Transferee under the Equity Transfer Agreement
“Director(s)”	director(s) of the Company
“Disposal”	disposal of 100% equity interest in Hongyu Thermal Power by the Company through Public Tender and transfer
“Equity Transfer Agreement”	the equity transfer agreement entered into among the Company, Hunan Zhihong Paper and Hongyu Thermal Power on 20 December 2023 in respect of the Disposal
“Group”	the Company and its subsidiaries
“Hongyu Thermal Power”	Liuyang Hongyu Thermal Power Co., Ltd.* (瀏陽市宏宇熱電有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company as at the date of this announcement
“Hunan Zhihong Paper” or “Transferee”	Hunan Zhihong Paper Co., Ltd.* (湖南志鴻紙業有限公司), a company incorporated in the PRC with limited liability and a third party independent of the Company and its connected persons
“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

“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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“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
“%”	per cent.

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

Kunming, the PRC, 20 December 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 Mr. Zha Guiliang, Ms. Zheng Dongyu and Mr. Ong King Keung, as independent non-executive Directors.*

\* *For identification purpose only*