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KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED

康達國際環保有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 6136)

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE EQUIPMENT PURCHASE FRAMEWORK AGREEMENT

EQUIPMENT PURCHASE FRAMEWORK AGREEMENT

On 28 March 2019, the Purchaser, an indirectly wholly-owned subsidiary of the Company, entered into the Equipment Purchase Framework Agreement with the Vendor, pursuant to which, the Purchaser agreed to purchase and the Vendor agreed to sell various types of equipment for a term ending on 31 December 2020.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Vendor was held indirectly as to 40% by Chongqing Kangte, which was held by Mr. Zhao, who served as an executive Director, chairman of the Board and was a controlling Shareholder of the Company, and Mr. Gu (on behalf of Mr. Zhao), who served as an executive Director, as to 98% and 2%, respectively. Therefore, the Vendor is deemed as a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions between the Group and the Vendor constitute continuing connected transactions of the Company under the Listing Rules.

Since each of the applicable percentage ratios (other than the profits ratio) in respect of the transactions contemplated under the Equipment Purchase Framework Agreement is, on an annual basis, expected to be more than 0.1% but less than 5% under the Listing Rules, such transactions constitute continuing connected transactions under Rule 14A.34 of the Listing Rules and are subject to the reporting, announcement and annual review requirements, but exempt from the circular and the Shareholders' approval requirements under Rule 14A.76(2) of the Listing Rules.

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EQUIPMENT PURCHASE FRAMEWORK AGREEMENT

Date:

28 March 2019

Parties:

- (i) The Vendor: Chongqing Taiko & Kangda Environmental Protection Technology Co., Ltd.* (重慶大晁康達環保技術有限公司); and
- (ii) The Purchaser: Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd.* (重慶康達環保產業(集團)有限公司).

Subject matter

Pursuant to the Equipment Purchase Framework Agreement, the Purchaser or its subsidiaries will purchase various types of wastewater treatment equipment from the Vendor from time to time during a term ending on 31 December 2020.

Pricing policy and payment term

To implement the transactions contemplated under and according to the Equipment Purchase Framework Agreement, the Purchaser or its subsidiaries and the Vendor will separately enter into specific sale and purchase agreements which will specify and stipulate the specific terms and the operative provisions, including but not limited to the standard, model number, unit price, quantity and delivery time of the wastewater treatment equipment.

The unit price under each specific sale and purchase agreement will be determined on a cost plus reasonable profits basis taking into account the model, standard and main material of the equipment to be provided by the Vendor, and in ordinary and usual course of business and on normal commercial terms, and such terms and conditions shall be negotiated on an arm's length basis and will be no less favorable than those available from the Independent Third Parties.

Before determining the unit price for the equipment under the Equipment Purchase Framework Agreement and signing any specific sale and purchase agreements, the Group will ascertain the market price of the main material of such equipment and the price of relevant comparable or similar equipment available in the market, and ensure that the price for the Group will be fair and reasonable and no less favourable to the Group than those available from the Independent Third Parties.

The consideration under each specific sale and purchase agreements will normally be payable by the Group to the Vendor in three installments, being (i) five days after execution of such specific sale and purchase agreement, (ii) 30 days after delivery of the equipment, and (iii) seven days after the expiry of the warranty period.

List of equipment

The equipment to be sold by the Vendor to the Purchaser or its subsidiaries under the Equipment Purchase Framework Agreement includes but not limited to the wastewater treatment equipment with the model numbers of SUM-1000A, SUM-2000A, SUM-3000A, SUM-100BU, SUM-200BU, SUM-300BU, SBXZ-500BU, SUM-100BB, SUB-200BB and SUM-300BB.

Term

The term of the Equipment Purchase Framework Agreement is the period from the signing date of the Equipment Purchase Framework Agreement to 31 December 2020.

Historical figures

The table below sets out the actual transaction amounts, being the consideration for the wastewater treatment equipment, between the Group and the Vendor for the two years ended 31 December 2018.

	For the year ended 31 December 2017 (RMB million)	For the year ended 31 December 2018 (RMB million)
Actual transaction amounts	13.39	3.66

Annual caps

The Board proposed the annual caps for the transactions under the Equipment Purchase Framework Agreement as follows:

	For the financial year 2019 (RMB million)	For the financial year 2020 (RMB million)
Annual caps	30	25

The annual caps were determined by the Group and the Vendor on an arm's length basis with reference to (i) the anticipated demand of the wastewater treatment equipment by the Group for the years 2019 and 2020 based on its current and anticipated projects; (ii) the quantity of wastewater treatment equipment purchased by the Group in the years 2017 and 2018; and (iii) the estimated cost and reasonable profit for the Vendor's production of such wastewater treatment equipment.

INTERNAL CONTROL

In order to ensure the terms of the Equipment Purchase Framework Agreement and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable to the Company and the Shareholders and the unit prices of the equipment are no less favourable to the Group than those available from the Independent Third Parties, the Group has adopted the following measures:

- (i) the Small Town Business Division* (小城镇事业部) of the Purchaser has been assigned to review and approve the terms of each specific sale and purchase agreement to be entered into in accordance with the Equipment Purchase Framework Agreement. Once approved, such sale and purchase agreement will be submitted to the Legal Department and the Financial Department of the Company to further assess whether the terms are on normal commercial terms, fair and reasonable to the Company and conducted in accordance with the terms of the Equipment Purchase Framework Agreement;
- (ii) the Small Town Business Division* (小城镇事业部) of the Purchaser and the Financial Department of the Company will also periodically update the market price of the main material, which will affect the cost substantially (such as steel, membrane material, module, etc.), used for the equipment, and will compare the price offered by the Vendor with at least two relevant quotations obtained in the market before entering into any specific sale and purchase agreements;
- (iii) the Group will not purchase any equipment under the Equipment Purchase Framework Agreement if the terms of specific sale and purchase agreement to be entered into under the Equipment Purchase Framework Agreement (including but not limited to the price, the after-sales service, etc.) are less favourable than those offered by the Independent Third Parties;
- (iv) the Financial Department of the Company will monitor the annual caps under the Equipment Purchase Framework Agreement before entering into any specific sale and purchase agreements to ensure they will not be exceeded;
- (v) the auditors of the Company will conduct an annual review on the pricing and the annual caps of the continuing connected transactions contemplated under the Equipment Purchase Framework Agreement in accordance with the requirements of the Listing Rules; and
- (vi) the independent non-executive Directors will conduct an annual review of the implementation of the continuing connected transactions contemplated under the Equipment Purchase Framework Agreement in accordance with the requirements of the Listing Rules.

INFORMATION ABOUT THE VENDOR AND THE GROUP

The Vendor is a sino-foreign joint venture company with limited liabilities established in the PRC on 28 March 2003. The Vendor is primarily engaged in the manufacture and sale of wastewater treatment device for ships.

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

REASONS FOR AND BENEFITS OF THE TRANSACTIONS UNDER THE EQUIPMENT PURCHASE FRAMEWORK AGREEMENT

The Directors considered that the Vendor, as a renowned wastewater treatment device manufacturer, has been engaged in such business for over a decade, and the Group has been purchasing various equipment from the Vendor. As result of the long-term business relationship, the Vendor is familiar with the requirements and the specifications for the wastewater treatment equipment used by the Group. Considering the expansion of the Group's business market and the high quality of the equipment previously provided by the Vendor, the Directors are of the view that the transactions contemplated under the Equipment Purchase Framework Agreement are beneficial for the Group as a whole given that the Vendor can be able to offer the equipment on terms no less favourable to the Group than terms available from the Independent Third Parties.

In view of the above, the Directors (including the independent non-executive Directors) consider that the terms of the Equipment Purchase Framework Agreement are on normal commercial terms and in the ordinary and usual course of business of the Company and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Mr. Zhao, who concurrently serves as an executive Director and the chairman of the Board, directly holds 98% equity interest of Chongqing Kangte, and Mr. Gu, who currently serves as an executive Director, directly holds 2% equity interest of Chongqing Kangte on behalf of Mr. Zhao. Chongqing Kangte indirectly holds 40% equity interest of the Vendor. Therefore Mr. Zhao and Mr. Gu are deemed to have a material interest in the transactions under the Equipment Purchase Framework Agreement and have abstained from voting on the Board resolutions in relation to such transactions. Save as disclosed above, none of the Directors who attended the Board meeting has a material interest in the transactions contemplated under the Equipment Purchase Framework Agreement.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Vendor was held indirectly as to 40% by Chongqing Kangte, which was held by Mr. Zhao, who served as an executive Director, chairman of the Board and was a controlling Shareholder of the Company, and Mr. Gu (on behalf of Mr. Zhao), who served as an executive Director, as to 98% and 2%, respectively. Therefore, the Vendor is deemed as a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions between the Group and the Vendor constitute continuing connected transactions of the Company under the Listing Rules.

Since each of the applicable percentage ratios (other than the profits ratio) in respect of the transactions contemplated under the Equipment Purchase Framework Agreement is, on an annual basis, expected to be more than 0.1% but less than 5% under the Listing Rules, such transactions constitute continuing connected transactions under Rule 14A.34 of the Listing Rules and are subject to the reporting, announcement and annual review requirements, but exempt from the circular and the Shareholders' approval requirements under Rule 14A.76(2) of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and phrases have the following meanings:

“Board”	the board of Directors
“Chongqing Kangte”	Chongqing Kangte Environmental Protection Industry Holdings Co., Ltd.* (重慶康特環保產業控股有限公司), a limited liability company established in the PRC on November 1994
“Company”	Kangda International Environmental Company Limited (康達國際環保有限公司) (stock code: 6136), a company incorporated in Cayman Islands with limited liability
“Directors(s)”	the director(s) of the Company
“Equipment Purchase Framework Agreement”	the equipment purchase framework agreement entered into between the Purchaser and the Vendor dated 28 March 2019, pursuant to which, the Purchaser agreed to purchase and the Vendor agreed to sell various types of wastewater treatment equipment for a term of two years ending 31 December 2020
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Parties”	third parties independent from and not connected with any member of the Group and the Vendor and their substantial shareholders and their respective associates (as such term is defined under Chapters 1 and 14A of the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Gu”	Mr. Gu Weiping, an executive Director
“Mr. Zhao”	Mr. Zhao Juanxian (alias, Zhao Junxian), an executive Director, the chairman of the Board and a controlling Shareholder
“Purchaser”	Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd.* (重慶康達環保產業(集團)有限公司), a limited liability company established in the PRC on 19 July 1996, an indirectly wholly-owned subsidiary of the Company
“PRC”	the Peoples’ Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Chongqing Taiko & Kangda Environmental Protection Technology Co., Ltd.* (重慶大晁康達環保技術有限公司), a limited liability company established in the PRC on 28 March 2003

* *For identification purposes only*

By order of the Board
Kangda International Environmental Company Limited
ZHAO Juanxian (alias, ZHAO Junxian)
Chairman

Hong Kong, 28 March 2019

As at the date of this announcement, the Board comprises 9 Directors, namely Mr. ZHAO Juanxian (alias, ZHAO Junxian), Mr. ZHANG Weizhong, Ms. LIU Zhiwei, Mr. GU Weiping, Mr. WANG Litong and Mr. WANG Tianci as executive Directors; and Mr. TSUI Yiu Wa Alec, Mr. PENG Yongzhen and Mr. CHANG Qing as independent non-executive Directors.