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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)

BUSINESS UPDATE

**PARTICIPATION IN THE WATER SUPPLY AND
DRAINAGE PPP PROJECT
IN THE URBAN AREA OF RUSHAN CITY**

The Board is pleased to announce that on 18 August 2016, Rushan City Housing and Urban-rural Construction Bureau* (乳山市住房和城鄉建設局) and the Project Company entered into the PPP Project Agreement and the Operation Service Agreement in respect of the PPP Project for water supply and drainage in the urban area of Rushan City, after a public tender process.

This announcement is made by the Company to keep the shareholders and potential investors of the Company informed of the latest business development of the Group.

INTRODUCTION

The Board is pleased to announce that on 18 August 2016, Rushan City Housing and Urban-rural Construction Bureau* (乳山市住房和城鄉建設局) and the Project Company entered into the PPP Project Agreement and the Operation Service Agreement in respect of the PPP Project for water supply and drainage in the urban area of Rushan City, after a public tender process.

The public-private-partnership (commonly known as “**PPP**”) model is an emerging cooperation model, supported by national policies, for the public and private sectors to work together under the leadership of the relevant PRC local government. While it typically involves the use of private sector capital in public sector works, there is no fixed cooperation model, as the extent and nature of the private sector’s involvements are driven by the requirements of the local government concerned.

PPP PROJECT AGREEMENT

Date:

18 August 2016

Parties:

- (1). Rushan City Housing and Urban-rural Construction Bureau* (乳山市住房和城鄉建設局); and
- (2). the Project Company.

Principal Terms

Pursuant to the PPP Project Agreement, during the Concession Period, the Project Company is entitled to exclusively responsible for the financing, investment, construction, operation, management and maintenance of the PPP Project and to charge the usability service fee and operation performance service fee in accordance with the Operation Service Agreement. Upon the expiration of the Concession Period, the Project Company shall transfer the PPP Project to Rushan City Housing and Urban-rural Construction Bureau* (乳山市住房和城鄉建設局) or any other designated entity of the local government for nil consideration.

OPERATION SERVICE AGREEMENT

Date:

18 August 2016

Parties:

- (1). Rushan City Housing and Urban-rural Construction Bureau* (乳山市住房和城鄉建設局); and
- (2). the Project Company.

Principal Terms

Pursuant to the Operation Service Agreement, the Project Company shall provide services of wastewater treatment, sludge treatment, watercourse operation and maintenance and pipeline network operation and maintenance for the PPP Project and shall be entitled to obtain the relevant service fees paid by Rushan City Housing and Urban-rural Construction Bureau* (乳山市住房和城鄉建設局) or any other designated entity.

INFORMATION ABOUT THE PPP PROJECT

The PPP Project, located in Rushan City, Shandong Province, the PRC, comprises the Upgrading and Reconstruction Project of Rushan City Second Wastewater Treatment Plant* (乳山市第二污水處理廠提標升級改造工程), the Rain-sewage Separation Pipeline Network Project in Old Urban Area of Rushan City* (乳山市老城區雨污分流管網工程), the Reconstruction Project of Old Water Supply Pipeline Network in Rushan City* (乳山市城市老舊供水管網改造工程), the Wastewater Treatment Plant and Ancillary Pipeline Network Project in Economic Development Zone in Rushan City* (乳山市經濟開發區污水處理廠及配套管網工程), the Sludge Treatment Centre Project in Solid Waste Circular Economy Industrial Park in Rushan City* (乳山市固體廢棄物循環經濟產業園污泥處置中心項目) and the Watercourse Comprehensive Treatment Project in Urban Area of Rushan City* (乳山市區河道綜合治理工程, which comprises of the Reconstruction Project of Main Stems and Culverts in Urban Area of Rushan City* (乳山市市區幹河暗渠改造工程), the River Treatment Project in Choujiawa Village of Rushan City* (乳山市仇家窪河治理工程), the City-south River Treatment Project in Rushan City* (乳山市城南河治理工程), the Water Supply Project for City-south River in Rushan City* (乳山市城南河補水工程) and the the Renovation Project of Small Stem River in Urban Area* (城區小幹河整修工程)). It is expected that the PPP Project will be carried out by using BOT and ROT as its project model.

REASONS FOR AND BENEFITS OF ENTERING INTO THE PPP PROJECT AGREEMENT AND OPERATION SERVICE AGREEMENT

The Directors believe that entering into the PPP Project Agreement and the Operation Service Agreement is consistent with the business strategy of the Company to explore business opportunities in the area of water resource management and infrastructure development and to enhance its financial performance so as to consolidate the Group's leading position in the industry. The Group's investment in the PPP Project aligns with the national supportive policies issued by the Ministry of Finance and the Group's participation in the PPP Project will enhance the Group's experience in PPP projects where the Group will continue to seek other PPP opportunities in the future.

Accordingly, the Directors consider that the terms of the Concession Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and are in the interest of the Company and the shareholders of the Company as a whole.

INFORMATION ON THE GROUP

The Group is principally engaged in design, construction and engineering of wastewater treatment plants and municipal infrastructures, and operation of wastewater treatment plants in the PRC.

INFORMATION ON THE RUSHAN CITY HOUSING AND URBAN-RURAL CONSTRUCTION BUREAU* (乳山市住房和城鄉建設局)

Rushan City Housing and Urban-rural Construction Bureau* (乳山市住房和城鄉建設局) is a local governmental authority in the PRC designated by the People's Government of Rushan City* (乳山市人民政府) for the formulation and implementation of urban-rural construction development plans and the management of urban-rural construction industry.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Rushan City Housing and Urban-rural Construction Bureau* (乳山市住房和城鄉建設局) is a third party independent of the Company and its connected person(s) (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited).

DEFINITIONS

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

“Board”	the board of Directors
“BOT”	build, operate and transfer, a project model in which the proprietor grants to a contracted enterprise the rights to undertake the financing, design, construction, operation and maintenance of water or wastewater treatment facilities by concession agreement, which enterprise can charge a fee during the concession period to cover its costs of investment, operation and maintenance as well as reasonable returns, and, upon expiration of the concession period, the relevant facilities will be transferred back to the proprietor

“Company”	Kangda International Environmental Company Limited (康達國際環保有限公司), a company incorporated in Cayman Islands with limited liability whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited
“Concession Period”	the 25-year concession period commencing from the date of execution of the PPP Project Agreement (including the construction period of the PPP Project)
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Kangda Group”	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
“Operation Service Agreement”	the operation service agreement entered into between Rushan City Housing and Urban-rural Construction Bureau* (乳山市住房和城鄉建設局) and the Project Company on 18 August 2016
“PPP Project”	the water supply and drainage PPP project in the Urban Area of Rushan City* (乳山市城區供排水PPP項目), including any ancillary projects
“PPP Project Agreement”	the public-private partnership project agreement entered into between Rushan City Housing and Urban-rural Construction Bureau* (乳山市住房和城鄉建設局) and the Project Company on 18 August 2016
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan

“Project Company”

Weihai Kangda Ecological Environment Comprehensive Treatment Co., Ltd.* (威海康達生態環境綜合治理有限公司), a limited liability company established in the PRC on 8 July 2016 for the purposes of construction, operation and maintenance of the PPP Project, and was owned by Rushan Water Group Co., Ltd.* (乳山市水務集團有限公司), as the designated investment representative on behalf of the People’s Government of Rushan City* (乳山市人民政府), as to 12% and by Kangda Group as to 88%

“ROT”

rehabilitate, operate and transfer, a project model combining the project model of transfer, operate and transfer (TOT) with the operation patterns of reconstruction and extension

By order of the Board

Kangda International Environmental Company Limited

ZHAO Juanxian (alias, ZHAO Junxian)

Chairman

Hong Kong, 18 August 2016

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

** for identification purpose only*