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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 CONSTRUCTION SERVICES AGREEMENT**

THE CONSTRUCTION SERVICES AGREEMENT

On 25 September 2020, Kangda Investment (Hong Kong), an indirectly wholly-owned subsidiary of the Company, entered into the Construction Services Agreement with Jiangxi Silver Dragon for a term commencing from the date of the Construction Services Agreement 2020 and ending on 31 December 2022 subject to the obtaining of the Independent Shareholders' approval.

LISTING RULES IMPLICATIONS

Kangda Investment (Hong Kong) is an indirectly wholly-owned subsidiary of the Company, and Jiangxi Silver Dragon is a non-wholly owned subsidiary of China Water, a substantial shareholder of the Company. Therefore, Jiangxi Silver Dragon is an associate of China Water and a connected person of the Company. Accordingly, the transaction contemplated under the Construction Services Agreement constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the proposed annual caps under the Construction Services Agreement exceeds 5%, the transactions contemplated under the Construction Services Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

An Independent Board Committee comprising all the independent non-executive Directors (except Mr. Chau Kam Wing) has been established to advise the Independent Shareholders, among other things, the entering into of the Construction Services Agreement and the transactions contemplated thereunder, and the Proposed Annual Caps. Fortune Financial has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

An EGM of the Company will be convened to seek the Independent Shareholders' approval for the Construction Services Agreement and the transactions contemplated thereunder.

A circular containing, among other things, (i) further details of the transactions contemplated under the Construction Services Agreement and the Proposed Annual Caps; (ii) a letter from the Independent Board Committee to the Independent Shareholders in respect of the continuing connected transactions under the Construction Services Agreement and the Proposed Annual Caps; (iii) a letter from Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions contemplated under the Construction Services Agreement and the Proposed Annual Caps; and (iv) the notice of the EGM will be despatched to the Shareholders on or before 20 October 2020.

Mr. Li Zhong, Ms. Liu Yujie, Mr. Duan, Jerry Linnan and Mr. Chau Kam Wing, all being directors of China Water, are materially interested in the Construction Services Agreement and have abstained from voting on the board resolution approving the Construction Services Agreement to avoid any conflict of interest.

THE CONSTRUCTION SERVICES AGREEMENT

Date

25 September 2020

Parties

- (1) Kangda Investment (Hong Kong)
- (2) Jiangxi Silver Dragon

Jiangxi Silver Dragon is a non-wholly owned subsidiary of China Water, a substantial shareholder of the Company. Therefore, Jiangxi Silver Dragon is an associate of China Water and a connected person of the Company under the Listing Rules.

Duration

For a term commencing from the date of the Construction Services Agreement and ending on 31 December 2022.

Nature of transaction

Pursuant to the Construction Services Agreement, the parties agreed that Jiangxi Silver Dragon may be selected to provide civil works, construction, installation works and supply of equipment for projects of the Group relating to the construction, upgrading, reconstruction and expansion of wastewater treatment facilities through a tender process in compliance with the applicable laws and regulations in the PRC. Jiangxi Silver Dragon may tender for the Group's projects with the tendering procedures of the Group which may be varied, amended, replaced or supplemented from time to time and on the same and normal terms as offered to other independent third-party construction contractors. Jiangxi Silver Dragon has agreed, in the event that it is selected following the tender process, to provide construction and related works and services to the Group according to the tender documents and the relevant construction contracts to be signed and on terms no less favourable to the Group than terms available from Independent Third Parties.

Separate construction contracts will be entered into between subsidiaries of Kangda Investment (Hong Kong) and Jiangxi Silver Dragon, if Jiangxi Silver Dragon is selected through the tender process to provide the construction and related works and services to the Group. The tender process for the construction works of the Group principally follows the requirements under the tender policies for the management of bidding and tendering of the Company. For construction contracts which the Bidding Law of the People's Republic of China (中華人民共和國招標投標法) is applicable, the Group shall comply with specific procedures set forth thereunder.

Under the construction contracts, the Group will pay Jiangxi Silver Dragon the construction fees according to the terms set out therein. The construction fees are generally paid in accordance with the progress and delivery of the construction services and equipment by the contractor selected under the tender. The construction fees are determined in accordance with the standard and systematic tender procedures which apply to tenders submitted by both connected persons and Independent Third Parties, after conducting relevant evaluation procedures and taking consideration of various factors, including technical experience, professional qualifications, business reputation, project management abilities of all the tenderers, total expenses and other relevant factors, and separate construction contracts will only be granted to Jiangxi Silver Dragon through the tender process and entered into by subsidiaries of Kangda Investment (Hong Kong) and Jiangxi Silver Dragon pursuant to the Construction Services Agreement.

The effectiveness of the Construction Services Agreement is conditional upon the approval by the Board and all necessary or appropriate approval or consent as required by the Stock Exchange or under the relevant laws, regulations or rules (including the Listing Rules) and from the Independent Shareholders at the EGM in relation to the entering into of the Construction Services Agreement and the transactions contemplated thereunder.

ANNUAL CAPS FOR THE CONSTRUCTION SERVICES AGREEMENT

Previous transaction with Jiangxi Silver Dragon

The Group entered into one construction contract with Jiangxi Silver Dragon on 28 February 2020 (the “**Existing Construction Contract**”) for the provision of construction services with a contract sum of approximately RMB71,000,000 (please refer to the Company's

announcement dated 28 February 2020 for details of the Existing Construction Contract). Up to the date of this announcement, save for the Existing Construction Contract, the Group has not entered into any other contract with Jiangxi Silver Dragon nor incurred any other transaction amounts for the construction services provided by Jiangxi Silver Dragon.

Proposed Annual Caps and basis

**For the period commencing
from the date of
Construction Services**

**Agreement and ending on
31 December 2020**

RMB million

180.0

**For the year ending
31 December 2021**

RMB million

300.0

**For the year ending
31 December 2022**

RMB million

300.0

The above Proposed Annual Caps under the Construction Services Agreement are determined with reference to:

- (a) the total construction costs incurred by the Group for the financial years ended 31 December 2017, 2018 and 2019 of approximately RMB1,174.7 million, RMB1,402.6 million and RMB1,046.6 million, respectively;
- (b) the total construction costs incurred and estimated to be incurred by the Group for the year ending 31 December 2020 of approximately RMB1,250.0 million and the total estimated construction costs to be incurred by the Group for the two years ending 31 December 2022 of approximately RMB1,500.0 million and RMB1,500.0 million, respectively, based on the overall planning, construction schedules and/or expected construction works of its projects in relation to wastewater treatment facilities for the relevant periods and the historical financial performance;
- (c) the total construction costs arising, or expected to arise, from construction contracts entered into, or expected to be entered into, with Jiangxi Silver Dragon for the two financial years ending 31 December 2021 and with reference to the construction schedules and/or expected construction work of the relevant projects in relation to wastewater treatment facilities for the relevant periods; and
- (d) the estimated increase in the average market rates charged for similar services due to inflation and anticipated increase in cost,

and on the principal assumptions that, for the duration of the projected period, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the business of the Group.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Group is mainly engaged in investing in and operating wastewater treatment facilities in the PRC. It is within the normal business course of the Group to undertake the construction, upgrading, reconstruction and expansion of wastewater treatment facilities in the PRC. As a subsidiary of China Water, Jiangxi Silver Dragon is specialized in construction of city water

supply and water environmental renovation infrastructure. Jiangxi Silver Dragon possesses the necessary technical experience, qualifications and has obtained all relevant licences in relation to the provision of construction works and services for the wastewater treatment facilities of the Group. In particular, Jiangxi Silver Dragon has obtained the Grade I qualification in general contracting for municipal public projects from the Ministry of Housing and Urban-Rural Development of the PRC, which allows Jiangxi Silver Dragon to undertake all scale of municipal public construction projects. Jiangxi Silver Dragon also obtained certification of ISO 9001:2015 Quality management systems, ISO 14001:2015 Environment management systems and ISO 45001:2018 Occupational health and safety management systems in respect of its Grade I Qualification for General Contractor of Municipal Public Construction Services. The Group is expected to benefit from Jiangxi Silver Dragon's qualification, experience and project quality. The Group is of the view that entering into of the Construction Services Agreement will enable the Group to secure a more diverse base of contractors to participate in the Group's wastewater treatment projects and if the tender is awarded to Silver Dragon, the quality of the services can be assured. Furthermore, taking into account of the relationship with Jiangxi Silver Dragon, it is expected that there will be a better and more efficient communication with Jiangxi Silver Dragon of needs of the Group as compared to third parties, as well as provide the Group with business and operational convenience.

The Directors (other than Mr. Chang Qing and Mr. Peng Yongzhen, whose views will be formed after having considered the advice of the Independent Financial Adviser) consider that the terms of the Construction Services Agreement are fair and reasonable, and the transactions contemplated thereunder are on normal commercial terms and are enter into in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole. The Directors (other than Mr. Chang Qing and Mr. Peng Yongzhen, whose views will be formed after having considered the advice of the Independent Financial Adviser) also consider that the Proposed Annual Caps set out above in relation to the Construction Services Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE GROUP AND OTHER PARTIES

Information on Kangda Investment (Hong Kong)

Kangda Investment (Hong Kong) is a company incorporated in Hong Kong with limited liability and an indirectly wholly-owned subsidiary of the Company. It is primarily engaged in investment holding. The Group is mainly engaged in investing in and operating wastewater treatment facilities in the PRC.

Information on Jiangxi Silver Dragon

Jiangxi Silver Dragon is a limited liability company established in the PRC and a non-wholly owned subsidiary of China Water. Its principal business includes municipal, water supply related and environmental renovation infrastructure construction. To the best of the Director's knowledge, information and belief and having made all reasonable enquiries, as at the date of this announcement, the ultimate beneficial owners of Jiangxi Silver Dragon are China Water, Zhao Xiaona, Fung Pak Tao, Shenzhen Huaqing Qianhai Hongshan Environmental Technology Equity Investment Partnership (Limited Partnership)* (深圳市華慶前海宏善環保科技股權投資基金合夥企業(有限合夥)), Guangxi Bama Jinze Investment

Partnership (Limited Partnership)* (廣西巴馬金澤投資合夥企業(有限合夥)), Guangxi Bama Jinpeng Investment Partnership (Limited Partnership)* (廣西巴馬金鵬投資合夥企業(有限合夥)) and Total Happy Investment Limited. China Water, a substantial shareholder of the Company, is a company listed on the Main Board of the Stock Exchange (stock code: 855), and is principally engaged in city water supply operation and construction. Shenzhen Huaqing Qianhai Hongshan Environmental Technology Equity Investment Partnership (Limited Partnership)* (深圳市華慶前海宏善環保科技股權投資基金合夥企業(有限合夥)) is principally engaged in equity investment and its ultimate beneficial owners consist of approximately 14 individuals and corporations including Goldtrust Water Group (Shenzhen) Co. Ltd.* (深圳金信安水務集團有限公司). Guangxi Bama Jinze Investment Partnership (Limited Partnership)* (廣西巴馬金澤投資合夥企業(有限合夥)) is principally engaged in investment holding and its ultimate beneficial owners consists of approximately 41 individuals. Guangxi Bama Jinpeng Investment Partnership (Limited Partnership)* (廣西巴馬金鵬投資合夥企業(有限合夥)) is principally engaged in investment holding and its ultimate beneficial owners consists of approximately 38 individuals. Total Happy Investment Limited is principally engaged in investment holding and its ultimate beneficial owners consist of 9 individuals including Mr. Li Zhong and Ms. Liu Yujie, directors of the Company. To the best of the Directors' information and belief, all the said beneficial owners are third parties independent of and not connected with the Company and its connected persons except Mr. Li Zhong and Ms. Liu Yujie who are directors of the Company and Goldtrust Water Group (Shenzhen) Co. Ltd.* (深圳金信安水務集團有限公司) which is a subsidiary of China Water and is principally engaged in investment holding..

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Mr. Li Zhong, Ms. Liu Yujie, Mr. Duan, Jerry Linnan and Mr. Chau Kam Wing, all being directors of China Water, are materially interested in the Construction Services Agreement and have abstained from voting on the board resolution approving the Construction Services Agreement to avoid any conflict of interest.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“China Water”	China Water Affairs Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 855), being a substantial shareholder of the Company
“Company”	Kangda International Environmental Company Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Construction Services Agreement”	the framework construction services agreement dated 25 September 2020 entered into between Kangda Investment (Hong Kong) and Jiangxi Silver Dragon whereby Jiangxi Silver Dragon agreed to provide construction works and services for the wastewater treatment facilities of the subsidiaries of Kangda Investment (Hong Kong) through tender process
“Director(s)”	the director(s) of the Company

“EGM”	an extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if deemed appropriate, approve, among other things, the entering into of the Construction Services Agreement and the transactions contemplated thereunder, and the Proposed Annual Caps
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“Independent Board Committee”	the independent committee of the Board, comprising Mr. Chang Qing and Mr. Peng Yongzhen, being independent non-executive Directors of the Company, established for the purpose of, among other things, advising the Independent Shareholders in respect of the entering into of the Construction Services Agreement, the transactions contemplated thereunder and the Proposed Annual Caps
“Independent Financial Adviser” or “Fortune Financial”	Fortune Financial Capital Limited, a licensed corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity as defined under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the entering into of the Construct Services Agreement, the transactions contemplated thereunder and the Proposed Annual Caps
“Independent Shareholders”	the Shareholders who are not required to abstain from voting under the Listing Rules at the EGM on the ordinary resolution for approving the Construction Services Agreement, the transactions contemplated thereunder and the Proposed Annual Caps
“Independent Third Parties”	persons or companies which are independent of and not connected with any Directors, chief executives, the substantial shareholders of the Company, and the directors and shareholders of any other members of the Group, and their respective associates
“Jiangxi Silver Dragon”	Jiangxi Silver Dragon Water Environment Construction Co., Ltd.* (江西銀龍水環境建設有限責任公司), a limited liability company established in the PRC and a non-wholly owned subsidiary of China Water

“Kangda Investment (Hong Kong)”	Kangda Investment (Hong Kong) Company Limited* (康達投資(香港)有限公司), a company incorporated in Hong Kong with limited liability and an indirectly wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“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
“Proposed Annual Caps”	the proposed annual caps for the transactions contemplated under the Construction Services Agreement to be entered into between the Group and Jiangxi Silver Dragon for the period commencing from the date of the Construction Services Agreement and ending on 31 December 2020 and each of the two years ending 31 December 2022
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“%”	per cent.

* *English transliteration of the Chinese name(s) is for identification purpose only and should not be regarded as the official English name(s) of such Chinese name(s)*

By order of the Board
Kangda International Environmental Company Limited
LI Zhong
Co-Chairman

Hong Kong, 25 September 2020

As at the date of this announcement, the Board comprises seven Directors, namely Mr. ZHAO Juanxian (alias, ZHAO Junxian), Mr. LI Zhong, Ms. LIU Yujie and Mr. DUAN, Jerry Linnan as executive Directors; and Mr. CHAU Kam Wing, Mr. CHANG Qing and Mr. PENG Yongzhen as independent non-executive Directors.