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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Kangda International Environmental Company Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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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)**

**(1) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO  
THE CONSTRUCTION SERVICES AGREEMENT;  
AND  
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to  
the Independent Board Committee and the Independent Shareholders**



**富強金融資本**  
FORTUNE FINANCIAL CAPITAL

A letter from the Board is set out on pages 5 to 16 of this circular and a letter from the Independent Board Committee, containing its recommendation to the Independent Shareholders, is set out on pages 17 to 18 of this circular. A letter from the Independent Financial Adviser, Fortune Financial Capital Limited, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 34 of this circular.

A notice of the EGM to be held at Suite 6409, 64/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on 16 November 2020 (Monday) at 10:00 a.m., is set out on pages EGM-1 to EGM-3 of this circular. A proxy form for use by the shareholders of the Company at the EGM is enclosed with this circular. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete the proxy form enclosed in accordance with the instructions printed thereon and return it to the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time for holding the EGM or adjourned meeting (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM should you so wish.

**PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING**

Please see page 1 of this circular for measures being taken to try to prevent and control the spread of the Novel Coronavirus (COVID-19) at the EGM, including:

- **compulsory wearing of appropriate face masks for all participants**
- **no distribution of corporate gifts or refreshments**

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the venue of the EGM. The Company also encourages its shareholders to consider appointing the chairman of the meeting as its/his/her proxy to vote on the relevant resolutions at the EGM as an alternative to attending the meeting in person. Subject to the development of COVID-19, the Company may implement further changes and precautionary measures and may issue further announcement on such measures as appropriate.

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## PRECAUTIONARY MEASURES FOR THE EGM

In view of the current development of the Novel Coronavirus (“**COVID-19**”), the Company will implement the following measures at its extraordinary general meeting (“**EGM**”):

- (i) All participants (including Shareholders or their proxy) in the EGM are required to wear appropriate face masks at all times during their attendance.
- (ii) No refreshments will be served, and there will be no corporate gifts. Seating will be arranged to ensure adequate physical distancing between attendees in order to reduce person-to-person contact.

To the extent permitted under the laws of Hong Kong, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue in order to ensure the safety of the attendees at the EGM.

Although Shareholders are welcome to attend in person to vote at the EGM, the Company reminds all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions inserted, Shareholders may appoint the Chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM instead of attending in person. The Proxy Form will be despatched to Shareholders and can be downloaded from the websites of the Stock Exchange and the Company.

## DEFINITIONS

*In this circular, unless the context otherwise requires, the following terms shall have the meanings set out below:*

“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
“China Water Group”	China Water and its subsidiaries
“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)”	director(s) of the Company
“EGM”	an extraordinary general meeting of the Company proposed to be convened and held on Monday, 16 November 2020 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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

## DEFINITIONS

“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
“Latest Practicable Date”	23 October 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

## DEFINITIONS

“PRC”	the People’s Republic of China, which, for the purposes of this circular only, excludes Hong Kong, 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 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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“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.

*Notes:*

- (1) For the purpose of this circular, unless otherwise indicated, the exchange rate at RMB0.86=HK\$1.00 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged.
- (2) If there is any discrepancy or inconsistency between the Chinese names of the PRC entities and their English translations in this circular, the Chinese version shall prevail.

\* *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)*

LETTER FROM THE BOARD



**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)**

*Executive Directors:*

Mr. ZHAO Juanxian (alias, ZHAO Junxian),

*Co-Chairman*

Mr. LI Zhong, *Co-Chairman*

Ms. LIU Yujie

Mr. DUAN, Jerry Linnan

*Registered office:*

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Independent Non-Executive Directors:*

Mr. CHAU Kam Wing

Mr. CHANG Qing

Mr. PENG Yongzhen

*Principal place of business in*

*Hong Kong:*

Suite 6409

64/F, Central Plaza

18 Harbour Road

Wanchai, Hong Kong

30 October 2020

*To the Shareholders,*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO  
THE CONSTRUCTION SERVICES AGREEMENT;**

**AND**

**(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**1. INTRODUCTION**

Reference is made to the announcement of the Company dated 25 September 2020 in relation to the Construction Services Agreement entered into between Kangda Investment (Hong Kong) and Jiangxi Silver Dragon for the provision of construction services of the Group upon successful tender.

The purposes of this circular, among other things, are to provide you with, 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

## LETTER FROM THE BOARD

Construction Services Agreement and the Proposed Annual Caps; (iii) a letter from Fortune Financial 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.

### 2. 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. The Group shall comply with specific procedures set forth under the



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Bidding Law of the PRC (中華人民共和國招標投標法) in accordance with the requirements of the local government where the relevant projects are located, and as specified in the relevant construction contracts. Such specific procedures are generally in line with the Company's basic procedures for the tender process as set out below, save that under the Bidding Law of the PRC, the bid evaluation committee shall be composed of the representatives of the tenderee and experts in the related technological and economic fields, the number of members of the bid evaluation committee shall be an odd number of 5 persons or more, and the experts in technological and economic fields may not be less than two-thirds of the total members, who are selected from the pool of experts provided by the local government where the relevant projects are located or by the bidding agent.

The basic procedures for the tender process are as follows:

- (1) the tenderee shall, in accordance with the provisions of the relevant laws and regulations, conduct the tender process by way of open tender or invitation tender. The tenderee shall prepare the bidding documents, issue the bidding documents and collect the application documents. The tenderee shall ensure that the bidding documents shall not favour nor restrict specific bidders. Open tenders shall be carried out in accordance with the requirements of the relevant local authorities, being the construction administrative department under the Ministry of Housing and Urban-Rural Development of the PRC where the relevant projects are located. For invitation tenders, no less than three contractors with established relationship with the Group shall be selected from the list of approved contractors and invited to participate in the bidding. At least one contractor, which is a third party independent and not connected with the Company, its subsidiaries and their respective connected persons is required to be invited to participate in such bidding;
- (2) the bidders shall, before the tender deadline as stipulated under the bidding documents, submit the application documents to the tenderee, which shall then be sealed, and the tenderee shall not open the bids until at least three applications have been received from the bidders;
- (3) any addition to or modification of the bidding documents which is integral to the bidding documents and received prior to the tender deadline may result in the relevant bid being withdrawn, and no additions to or modifications of the bidding documents may be made after the tender deadline;
- (4) prior to the opening of the bids, the tenderee shall determine the members of the bid evaluation committee in accordance with the tender policies of the Company. If any member of the bid evaluation committee has a material interest, relationship or arrangement with any bidder, such member should withdraw from the committee, failing which the results of the bid evaluation shall be invalidated and such member shall be subject to disciplinary actions, including issue of warning letter and disqualification order. The members of the bid evaluation committee shall be an odd number of 3 persons or more,

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depending on the relevant contractual sum, and are selected within the Company from a pool of experts with the relevant technical expertise (in relation to equipment, materials and construction), and in the case where there are special requirements or where the experts within the Company do not meet the requirements for the bid evaluation, external experts may be recommended for selection;

- (5) the bidding applications shall be evaluated by the bid evaluation committee and the bidding applications shall be reviewed and scored in accordance with standards and methods as provided by the bidding documents. The tenderee shall summarise the scores to form a written report and determine the candidates for the winning bid. There shall be no more than three candidates for the winning bid and order shall be indicated in the report. If the bid evaluation committee is aware of fraudulent conduct or other misconduct in relation to a bidding application, the relevant bidding application may be invalidated;
- (6) after the bid winner is selected from the list of candidates by the tenderee, the tenderee shall enter into a written contract with the bid winner in accordance with relevant laws and regulations; and
- (7) the bid winner shall fulfill its obligations as provided in the contract and complete the relevant project.

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. As 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 Directors are of the view that the construction fees to be paid by the Group to Jiangxi Silver Dragon, if it is selected in accordance with the tender process, shall be in line with the prevailing market prices from time to time and are on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole.

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.

**LETTER FROM THE BOARD**

**3. 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 Latest Practicable Date, 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**

<b>For the period commencing from date of the Construction Services Agreement and ending on 31 December 2020</b> <i>RMB million</i>	<b>For the year ending 31 December 2021</b> <i>RMB million</i>	<b>For the year ending 31 December 2022</b> <i>RMB million</i>
180.0	300.0	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

## LETTER FROM THE BOARD

- (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.

In terms of construction costs, the Proposed Annual Caps represent 14.4%, 20% and 20% of the total construction costs incurred and/or estimated to be incurred by the Group for each of the years ending 31 December 2020, 2021 and 2022, respectively. In view of the Group's expectation that the business relating to the construction, upgrading, reconstruction and expansion of wastewater treatment facilities will remain stable and that the increase in the average market rates will remain relatively low (based on the low inflation rates as represented by the recent growth of China's consumer price index of around 2.4%), the Directors consider that it is reasonable to set the annual cap for the year ending 31 December 2022 to be same as the annual cap for the year ending 31 December 2021. The Directors are of a view that the Proposed Annual Caps as above will ensure that the Group would not have excessive reliance on Jiangxi Silver Dragon for construction services. Independent third parties and Jiangxi Silver Dragon have equal opportunities in the tender process. Moreover, the Group is not obliged to engage the service of Jiangxi Silver Dragon. As detailed in the section headed "Construction Services Agreement — Nature of transaction" in this circular, the Group will select service provider for construction works and services through a tender process. During such process, the Group takes into account factors such as technical experience, professional qualifications, business reputation, project management abilities of all the tenderers, total expenses and other relevant factors when selecting and assessing potential tenders. It is at the Group's own discretion to determine whether to engage the service of Jiangxi Silver Dragon or independent service providers, subject to its successful tender, in the interests of the Company and the Shareholders.

Shareholders should note that the Proposed Annual Caps only represent the best estimates by the Group based on the information currently available (construction schedule and prevailing market conditions) and, in particular, the estimated amount of construction contracts for the Group's existing and future projects in relation to wastewater treatment facilities. The construction contracts for the Group's projects in relation to wastewater treatment facilities are open for tender by Jiangxi Silver Dragon as well as other third party construction companies and accordingly, the Proposed Annual Caps should not be construed as the actual amount of construction contracts that the Group may award to Jiangxi Silver Dragon from the date of the Construction Services Agreement to 31 December 2020 and during the two years ended 31 December 2022. The Proposed Annual Caps have no direct relationship to, nor should be taken to have any direct bearing on, the Group's financial or potential financial performance. The Group may or may not engage Jiangxi Silver Dragon as construction contractor(s) in relation to future tenders for the Group's projects in relation to wastewater treatment facilities, or if appointed, to take up construction works up to the level of the Proposed Annual Caps.

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### 4. INTERNAL CONTROL

The Group has adopted the following internal control procedures over the Construction Services Agreement:

- As detailed in the section headed “Construction Services Agreement — Nature of transaction” in this circular, the Group will go through a number of steps for all of its tender processes for the construction works of the Group to ensure that such transactions can be conducted on normal commercial terms and are not prejudicial to the interests of the Company and the Shareholders taken as a whole.
- In addition, to ensure that the Construction Services Agreement and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable and in the interests of the Company and the Shareholders as a whole, the Company has adopted the following measures:
  - the finance department of the Company shall be primarily responsible for reviewing and monitoring the continuing connected transactions to ensure that the annual caps of the relevant continuing connected transactions have not been and would not be exceeded;
  - the general manager of each relevant subsidiary of Kangda Investment (Hong Kong) shall be responsible for the implementation of the continuing connected transactions, and will conduct regular checks to assess whether such transactions have been conducted in accordance with the terms and the mechanisms under the relevant framework agreement;
  - the auditors of the Company will review the continuing connected transactions (which are subject to the annual review and disclosure requirements under the Listing Rules) annually to check and confirm (among others) whether the terms of the relevant framework agreement has been adhered to and whether the relevant caps have been exceeded, and report its findings to the audit committee of the Company (the “**Audit Committee**”);
  - the Audit Committee will consider the findings of the external auditors and make evaluation on such continuing connected transactions to ensure that they are conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, and in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole. The Audit Committee will then report to the Board on an annual basis; and
  - the independent non-executive Directors will review the continuing connected transactions (which are subject to the annual review and disclosure requirements under the Listing Rules) annually to confirm whether they are conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, and in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as

## **LETTER FROM THE BOARD**

a whole and whether the internal control procedures put in place by the Company are adequate and effective to ensure that such continuing connected transactions were conducted in accordance with the requirements of the Listing Rules.

Therefore, the Directors are of the view that such internal control measures can ensure that the transactions contemplated under the Construction Services Agreement will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and the Shareholders taken as a whole.

### **5. 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, including the independent non-executive Directors, 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 entered 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, including the independent non-executive Directors, 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.



**6. INFORMATION ON THE GROUP AND OTHER PARTIES**

**(a) 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.

**(b) Information on Jiangxi Silver Dragon**

Jiangxi Silver Dragon is a limited liability company established in the PRC and a 74.76% 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 Directors' knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, 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. The ultimate beneficial owners of China Water are Mr. Duan Chuan Liang and ORIX Corporation, a company listed on the Tokyo Stock Exchange (securities code: 8591) and on the New York Stock Exchange (trading symbol: IX) and engaged in the provision of diversified financial services. According to the latest annual report of ORIX Corporation, its largest shareholder is Japan Trustee Services Bank, Ltd. (Trust Account) holding 8.47% of the total issued shares.

Based on information which is derived from publicly available sources:

- 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 are Lai Yongqing, Zhou Jianchang, Hu Ying, Wang Hui, Li Wei, Wang Xiaoqin, Ren Kelei, Ma Weihua, Li Bo, Guan Tongke, Li Wangxin, Hao Zhanwei, Li Wei and 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 are Huang Shaohui, Wang Kexin, Cao Zhongyin, Wu Qiaoli, Chen Yue, Xiao Ding, Chen Ji, Zhang Zhangchun, Xing Yuyuan, Liu Yong, Li Xingping, Gan Xiaodong, Gao Guangwei, Wang Chunlei, Ren Qian, Kang Guangjian, Fang Di, Ying Yan, Liao Gong, Wang Yongjie, Chen Weibin, Zou Bing, Tao Hua, Wu Tong, Mei Qinqing, Shi Mingwang, Zhang Li,

## LETTER FROM THE BOARD

Zhang Shizhe, Geng Shidong, He Bangli, Li Tiejun, Lu Fanyu, Yan Jiashu, Jiang Jiajia, Zhang Qin, Zhao Qingmin, Liu Feng, Wang Xiaoqin, Liu Zhongming, Duan Chuantao and Wang Lin.

- 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 are Xie Kejun, Chen Wenping, Zhou Songwen, Yin Wenjie, Yuan Yunsheng, Huang Weicai, Shi Yan, Feng Tianhua, Zhong Wei, Fang Xuequan, Hu Qingping, Ye Boqing, Yan Wei, Cai Qin, Yang Fangqi, Zhou Wei, Zhang Junfeng, Zhang Xiaowen, Liu Feng, Sun Weiguo, He Xiaogang, Ding Xianwu, Xiao Zhiqiang, Xu Jianping, Han Xiaodong, Xu Fengying, Liu Jun, Zhao Jiawei, Yang Husheng, Zhang Chengping, Ma Shuiyuan, Li Yunjun, Luo Siping, Liu Xiaohua, Lan Hui, Li Qingji, Wang Jian and Li Zhilin.
- Total Happy Investment Limited is principally engaged in investment holding and its ultimate beneficial owners are Li Zhong, Liu Yujie, Wong But Sit Jason, Wan Lam, Wong Chiu Ling, Lie Chi Wing, Ho Yuk Hang, Lai Kai Wai and Chen Kaiqi.

To the best of the Directors' information and belief, all the said beneficial owners are third parties independent of the Company and connected persons of the Company 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. Save for China Water and Fung Pak Tao, none of the other ultimate beneficial owners was individually interested in 10% or more of the equity interest in Jiangxi Silver Dragon.

### 7. 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 continued 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.

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.



## LETTER FROM THE BOARD

Details of the continuing connected transactions contemplated under the Construction Services Agreement will be included in the annual report and accounts of the Company in accordance with Rules 14A.71 and 14A.72 of the Listing Rules. In the event that the Construction Services Agreement is renewed or the terms thereof are materially varied, the Company will re-comply with the reporting, announcement and Independent Shareholders' approval pursuant to Rules 14A.35 to 14A.60 of the Listing Rules.

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.

### 8. EGM

The notice convening the EGM to be held at Suite 6409, 64/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 16 November 2020 at 10:00 a.m., at which an ordinary resolution will be proposed for the Independent Shareholders to consider, and if thought fit, to approve, among other things, (i) the entering into of the Construction Services Agreement and the transactions contemplated thereunder; and (ii) the Proposed Annual Caps, is set out on pages EGM-1 to EGM-3 of this circular.

A proxy form for use at the EGM is enclosed. If you intend to appoint proxy to attend the EGM, you are requested to complete the proxy form and return it to the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or adjourned meeting (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting at the EGM if you so wish.

Any connected person of the Company with a material interest in the Construction Services Agreement, and any Shareholder with a material interest in such transaction and its associates, shall not vote on the resolution in relation thereto. As at the Latest Practicable Date, to the best of the Director's knowledge, information and belief, having made all reasonable enquiries, Sharp Profit Investments Limited (which was beneficially interested in 608,990,000 Shares or approximately 28.46% of the total issued Shares (excluding the interest in the exchangeable bonds issued by Baring Private Equity Asia V Holding (5) Limited to Sharp Profit Investments Limited on 8 May 2020)), being a wholly-owned subsidiary of China Water, and Mr. Li Zhong (who was beneficially interested in 10,000,000 Shares or approximately 0.47% of total issued Shares), Ms. Liu Yujie (who was beneficially interested in 10,000,000 Shares or approximately 0.47% of total issued Shares), Mr. Duan, Jerry Linnan (who was beneficially interested in 10,000,000 Shares or approximately 0.47% of total issued Shares) and Mr. Chau Kam Wing (who was beneficially interested in 2,000,000 Shares or approximately 0.09% of total issued Shares), each being a director of China Water, and their respective associates are required to abstain from voting on the ordinary resolution to be proposed at the EGM. To the best of the Directors' knowledge, information and belief, having

## LETTER FROM THE BOARD

made all reasonable enquiries, no other Shareholder has any material interest in the Construction Services Agreement, and therefore no other Shareholder is required to abstain from voting at the EGM in respect of the resolution approving the aforesaid matters. The poll results will be published on the websites of the Company and the Stock Exchange following the EGM.

### 9. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 17 to 18 of this circular which contains its recommendation to the Independent Shareholders in relation to the entering into of the Construction Services Agreement and the transactions contemplated thereunder, and the Proposed Annual Caps. In addition, your attention is also drawn to the letter of advice from Fortune Financial set out on pages 19 to 34 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Construction Services Agreement and the transactions contemplated thereunder, and the Proposed Annual Caps, and the principal factors and reasons taken into account in arriving at its recommendation.

The Independent Board Committee, having taken into account the advice of Fortune Financial, is of the opinion that the Construction Services Agreement was entered into in the ordinary and usual course of business of the Group on normal commercial terms, and the terms of the Construction Services Agreement and the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Construction Services Agreement and the transactions contemplated under it and the Proposed Annual Caps.

The Board (including the members of the Independent Board Committee) considers that the Construction Services Agreement was entered into in the ordinary and usual course of business of the Group on normal commercial terms, and the terms of the Construction Services Agreement and the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed as set out in the notice of the EGM.

### 10. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular and the notice of the EGM set out in this circular.

Yours faithfully,  
On behalf of the Board of  
**Kangda International Environmental Company Limited**  
**LI Zhong**  
*Co-Chairman*

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

*The following is the letter of advice from the Independent Board Committee to the Independent Shareholders which has been prepared for the purpose of inclusion in this circular.*



**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)**

30 October 2020

*To the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS IN RELATION TO  
THE CONSTRUCTION SERVICES AGREEMENT**

We refer to the circular dated 30 October 2020 of the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the Construction Services Agreement was entered into in the ordinary and usual course of business of the Group on normal commercial terms, and the terms of the Construction Services Agreement and the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Fortune Financial Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the same matters. We wish to draw the Independent Shareholders’ attention to the “Letter from the Board” and the “Letter from Fortune Financial” set out in the Circular.

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

Having taken into account the advice of Fortune Financial Capital Limited, we consider that the Construction Services Agreement was entered into in the ordinary and usual course of business of the Group on normal commercial terms, and the terms of the Construction Services Agreement and the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Construction Services Agreement, the transactions contemplated under it and the Proposed Annual Caps.

Yours faithfully,

For and on behalf of the  
Independent Board Committee

**Chang Qing**

**Peng Yongzhen**

*Independent Non-Executive Directors*

## LETTER FROM FORTUNE FINANCIAL

*The following is the text of a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of Construction Services Agreement (including the Proposed Annual Caps and the transactions contemplated thereunder), which has been prepared for the purpose of incorporation in the Circular.*

43/F, COSCO Tower  
183 Queen's Road Central  
Hong Kong



30 October 2020

*To the Independent Board Committee and the Independent Shareholders*

Kangda International Environmental Company Limited  
Suite 6409  
64/F, Central Plaza  
18 Harbour Road  
Wanchai, Hong Kong

Dear Sir/Madam,

### **CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE CONSTRUCTION SERVICES AGREEMENT**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Construction Services Agreement and the transactions contemplated thereunder including the Proposed Annual Caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 30 October 2020 (the “**Circular**”), of which this letter forms parts. Capitalized terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 25 September 2020, Kangda Investment (Hong Kong) and Jiangxi Silver Dragon entered into the Construction Services Agreement for the provision of construction services of the Group upon successful tender for a term commencing from the date of the Construction Services Agreement and ending on 31 December 2022, subject to the Independent Shareholders’ approval having been obtained.

Kangda Investment (Hong Kong) is a wholly owned subsidiary of the Company, and Jiangxi Silver Dragon is a 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 transactions 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

## LETTER FROM FORTUNE FINANCIAL

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.

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.

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. We, Fortune Financial, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

### **OUR INDEPENDENCE**

As at the Latest Practicable Date, we were independent from and not connected with the Company, Kangda Investment (Hong Kong), Jiangxi Silver Dragon and any of their respective substantial shareholders or associates that could reasonably be regarded as relevant to our independence and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Construction Services Agreement, the transactions contemplated thereunder and the Proposed Annual Caps. Save for our appointment as the Independent Financial Adviser, there was no other engagement between the Company and us in the past two years. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Group. We have reviewed, inter alia, the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that (i) all statements, information and representations provided by the Directors and the management of Group; and (ii) the information referred to in the Circular, for which they are solely responsible, were true and accurate at the time when they were provided and continued to be so as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such information and representations before the EGM. We have also assumed that all statements of belief, opinion, intention and expectation made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have also sought and received confirmation from the Company that no material facts have been omitted from the information provided and the opinions expressed to us. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the representation and opinions expressed by the Company, its advisers and/or the Directors.

## LETTER FROM FORTUNE FINANCIAL

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the management of the Group nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Group.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

This letter is issued for the information of the Independent Board Committee and shareholders solely in connection with their consideration of the terms of the Construction Services Agreement, the transactions contemplated thereunder and the Proposed Annual Caps. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the Construction Services Agreement, the transactions contemplated thereunder and the Proposed Annual Caps, we have considered the following principal factors and reasons:

#### 1. Background information on the Group

The Group is mainly engaged in investing in and operating wastewater treatment facilities in the PRC. According to the interim report of the Company for the six months ended 30 June 2020 (the “**2020 Interim Report**”), its principal business activities remained focusing on the Urban Water Treatment, followed by the existing projects of Water Environment Comprehensive Remediation and the Rural Water Improvement. The scope of Urban Water Treatment includes the design, construction, upgrade and operation of wastewater treatment plants, reclaimed water treatment plants, sludge treatment plants, water distribution plants, and in the operation and maintenance of wastewater treatment facilities entrusted by governments. The scope of Water Environment Comprehensive Remediation includes river harnessing and improvement, foul water body treatment, and sponge city construction. The scope of Rural Water Improvement includes the construction and operation related to “the Water Environment Comprehensive Facilities of Beautiful Village” such as: wastewater treatment and pipeline construction for collecting wastewater so as to achieve rural living environment improvement.



## LETTER FROM FORTUNE FINANCIAL

According to the 2020 Interim Report, in the future, the Group will continue to focus on its main business, namely water treatment, and increasing its profitability and improving the operational cash flows by raising treatment standards and expansion of its existing projects. As at 30 June 2020, the Group had entered into a total of 112 service concession arrangements projects for the Urban Water Treatment, including 105 wastewater treatment plants, 2 water distribution plants, 3 sludge treatment plants and 2 reclaimed water treatment plant.

### **2. Background information on Jiangxi Silver Dragon**

Jiangxi Silver Dragon is a non-wholly subsidiary of China Water and is principally engaged in the business of municipal, water supply related and environmental renovation infrastructure construction. China Water is listed on the Main Board of the Stock Exchange (stock code: 855) and is principally engaged in city water supply operation and construction. As set out in the Letter from the Board, the Group entered into one construction contract with Jiangxi Silver Dragon on 28 February 2020 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).

Jiangxi Silver Dragon has won the title of the Credit Evaluation Certificate of General Contractor Enterprises with Grade AAA Qualification for Housing Construction and Municipal Construction Services in Xinyu City (新余市房建和市政工程施工總承包企業信用評價AAA級企業資質證書) issued by Construction Industry Association, Xinyu City (新余市建築業協會) in 2019. The water treatment projects undertaken by Jiangxi Silver Dragon have also been rated as provincial high-quality work numerous times, further establishing Jiangxi Silver Dragon as a reputable and qualified construction company. We have been advised by the management that, as at the Latest Practicable Date, Jiangxi Silver Dragon had established a nationwide presence by setting up 23 branch offices in Chongqing, Hubei, Heilongjiang, Shanxi, Jiangxi, and other areas, and has more than 300 engineering and technical personnel, including more than 30 Grade I Qualification of Construction Engineers (一級建造師), more than 50 Grade II Qualification of Construction Engineers (二級建造師) and more than 200 engineering and economic management personnel.

To the best knowledge of the Directors, Jiangxi Silver Dragon has obtained all necessary licenses as a construction contractor in the PRC to undertake the civil works, construction and installation works under the water treatment projects of the Group, and its principal business activities are and will continue to include carrying out construction services. We have obtained through the Company and reviewed copies of the followings in respect of Jiangxi Silver Dragon: (i) the 2019 renewed Business License (營業執照); (ii) the Construction Enterprise Qualification Certificate (建築業企業資質證書) with Grade I Qualification for General Contractor of Municipal Public Construction Services (市政公用工程施工總承包一級資質) issued by Ministry of Housing and Urban-Rural Development of the PRC; (iii) the 2020 renewed Engineering Design of Qualification Certificate (工程設計資質證書) with Grade III for municipal industry in respect of drainage engineering, road engineering and water supply engineering (市政行業(排水工程、道路工程、給水工程)丙級) issued by the Department of Housing and Urban-Rural



Development, Xinyu City (新余市住房和城鄉建設局); and (iv) the 2020 renewed Construction Enterprise Qualification Certificate (建築業企業資質證書) with Construction Labour Services Certifications (施工勞務資質不分等級), Grade II Qualification for Professional Contracting of Building Decoration Services (建築裝修裝飾工程專業承包貳級資質), Grade III Qualification for General Contracting of Construction Services (建築工程施工總承包叁級資質), Grade III Qualification for General Contracting of Water Resources and Hydropower Engineering Services (水利水電工程施工總承包叁級資質), and Grade III Qualification for Professional Contracting of Environmental Engineering Services (環保工程專業承包叁級資質) issued by the Department of Housing and Urban-Rural Development, Xinyu City (新余市住房和城鄉建設局). In respect of the qualifications of various key employees of Jiangxi Silver Dragon who, as confirmed by the Company, are responsible for the civil works, construction and installation works for the Group's water treatment projects, we have also obtained through the Company and reviewed copies of the relevant Grade I constructor qualification certificates (一級建造師證書) issued by Ministry of Housing and Urban-Rural Development of the PRC and Grade II constructor qualification certificates (二級建造師證書) issued by the Department of Housing and Urban-Rural Development, Jiangxi Province (江西省住房和城鄉建設廳). We have also inspected the copies of certification of ISO 9001:2015 quality management systems, ISO 14001:2015 environment management systems and ISO 45001:2018 occupational health and safety management systems which Jiangxi Silver Dragon obtained in respect of its Grade I Qualification for General Contractor of Municipal Public Construction Services. The Company has also confirmed that, to its best knowledge, information and belief having made all reasonable enquiries, all such licenses and certificates mentioned above remained valid as at the Latest Practicable Date.

### **3. Reasons for and benefits of entering into the Construction Services Agreement**

As stated in the Letter from the Board, 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.

## LETTER FROM FORTUNE FINANCIAL

Based on the information provided by the Company, we noted that Jiangxi Silver Dragon had demonstrated its capability as a nationwide contractor with reputation and proven track record on construction works. Major projects contracted by Jiangxi Silver Dragon in the past included more than 50 municipal factory construction works, more than 10 large scale water environment remediation projects and various construction of rural and urban water supply infrastructures. To the best knowledge of the management, as at Latest Practicable Date, Jiangxi Silver Dragon has 22 projects in progress with an aggregate attributable contract value of approximately RMB3,808.7 million. As set out in this letter above, we have obtained and reviewed the qualifications of Jiangxi Silver Dragon including the permits and licenses issued by relevant offices in the PRC to ensure its qualification in providing the construction services upon successful tender.

Having considered that (i) all necessary licenses and certificates have been obtained by Jiangxi Silver Dragon in the PRC to undertake the types of water treatment projects of the Group; and (ii) the track record of Jiangxi Silver Dragon on civil services, construction and installation services, we agree with the Directors that Jiangxi Silver Dragon is a qualified contractor and the Group can secure a more diverse base of contractors to participate in the Group's water treatment projects through entering into the Construction Services Agreement, and if the tender is awarded to Jiangxi Silver Dragon, the quality of the services can be assured. The Construction Services Agreement would allow the Group, but not the obligation, to engage Jiangxi Silver Dragon as construction contractor as long as its tender is awarded in accordance with the Group's tendering procedures. Based on the foregoing, we consider that there is a justifiable commercial rationale for the Company and it is in the ordinary course of business of the Group to enter into the Construction Services Agreement.

#### **4. Principal terms of the Construction Services Agreement**

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 and, 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. The Group shall comply with specific procedures set forth under the

## LETTER FROM FORTUNE FINANCIAL

Bidding Law of the PRC (中華人民共和國招標投標法) (the “**Tender Law**”) in accordance with the requirements of the local government where the relevant projects are located, and as specified in the relevant construction contracts. Such specific procedures are generally in line with the Company’s basic procedures for the tender process as set out in the Letter from the Board, save that under the Tender Law, the bid evaluation committee shall be composed of the representatives of the tenderee and experts in the related technological and economic fields, the number of members of the bid evaluation committee shall be an odd number of 5 persons or more, and the experts in technological and economic fields may not be less than two-thirds of the total members, who are selected from the pool of experts provided by the local government where the relevant projects are located or the bidding agent.

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.

### *Tender process*

As set out in the Letter from the Board, the tender process for the construction works of the Group principally follows the requirements under the Tender Law and the tendering policies of the Company. The basic procedures for the tender process are as follows:

#### *(1) Tender method*

The tenderee shall, in accordance with the provisions of the relevant laws and regulations, conduct the tender process by way of open tender or invitation tender. The tenderee shall prepare the bidding documents, issue the bidding documents and collect the application documents. The tenderee shall ensure that the bidding documents shall not favour nor restrict specific bidders. Open tenders shall be carried out in accordance with the requirements of the relevant local authorities, being the construction administrative department under the Ministry of Housing and Urban-Rural Development of the PRC where the relevant projects are located. For invitation tenders, no less than three contractors with established relationship with the Group shall be selected from the list of approved contractors and invited to participate in the bidding. At

## LETTER FROM FORTUNE FINANCIAL

least one contractor, which is a third party independent and not connected with the Company, its subsidiaries and their respective connected persons is required to be invited to participate in such bidding.

### *(2) Collection of tender documents*

The bidders shall, before the tender deadline as stipulated under the bidding documents, submit the application documents to the tenderee, which shall then be sealed, and the tenderee shall not open the bids until at least three applications have been received from the bidders.

Any addition to or modification of the bidding documents which is integral to the bidding documents and received prior to the tender deadline may result in the relevant bid being withdrawn, and no additions to or modifications of the bidding documents may be made after the tender deadline.

### *(3) Formation of bid evaluation committee*

Prior to the opening of the bids, the tenderee shall determine the members of the bid evaluation committee in accordance with the tender policies of the Company. If any member of the bid evaluation committee has a material interest, relationship or arrangement with any bidder, such member should withdraw from the committee, failing which the results of the bid evaluation shall be invalidated and such member shall be subject to disciplinary actions, including issue of warning letter and disqualification order. The members of the bid evaluation committee shall be an odd number of 3 persons or more, depending on the relevant contractual sum, and are selected within the Company from a pool of experts with the relevant technical expertise (in relation to equipment, materials and construction), and in the case where there are special requirements or where the experts within the Company do not meet the requirements for the bid evaluation, external experts may be recommended for selection.

### *(4) Bid evaluation*

The bidding applications shall be evaluated by the bid evaluation committee and the bidding applications shall be reviewed and scored in accordance with standards and methods as provided by the bidding documents. The tenderee shall summarise the scores to form a written report and determine the candidates for the winning bid. There shall be no more than three candidates for the winning bid and order shall be indicated in the report. If the bid evaluation committee is aware of fraudulent conduct or other misconduct in relation to a bidding application, the relevant bidding application may be invalidated.

## LETTER FROM FORTUNE FINANCIAL

### (5) *Selection of tender*

After the bid winner is selected from the list of candidates by the tenderee, the tenderee shall enter into a written contract with the bid winner in accordance with relevant laws and regulations.

In this connection, we have reviewed the Group's tender management manual (招標管理辦法) (the "**Tender Manual**"), which contains the internal policies in governing the tender procedures of the Group. It sets out guidelines for, among other things, tender method, collection of tender documents, bid opening, bid evaluation, selection of tender, and bidding approval process. We also noted that the Tender Manual sets out (i) the primary responsibilities of the Group's bidding department in respect of the execution of the Group's tender process, which include the preparation of bidding plans and bidding documents, collection of bidding documents, documentation of the bidding and evaluation process, and coordination between various key operational departments during the bidding approval process; and (ii) the overseeing duty of the Group's internal audit department, which include the investigation of any violations of regulations and disciplines. Based on our review of the Tender Manual, it is noted that the bid evaluation committee would evaluate and rate the bidding applications according to, among other criteria, (i) the qualification of the bidders; (ii) the technical plan, product technical information, and implementation plan in a given bidding application; and (iii) the commercial aspects, including the business process, delivery, quotation, payment, etc. in a given bidding application. It is confirmed by the Directors that the Group's tenders had followed such standard and systematic tendering procedures in accordance to the relevant manuals, which apply to tenders submitted by both connected persons and independent third parties, for the three years ended 31 December 2019 and up to the Latest Practicable Date.

In relation to the formation of bid evaluation committee, we have obtained and reviewed the Group's bid evaluation committees and bid evaluation committee database management manual (評標專家和評標專家庫管理制度) (the "**BEC Manual**") and noted that there are policies in place to ensure the fairness for the Group's tender process. The BEC Manual sets out the criteria of sourcing internal and external experts and the approval process of an expert to the bid evaluation committee database. The remuneration and tenure of the bid evaluation experts are also standardized under the BEC Manual. The members of the bid evaluation committee for a given tender is selected from bid evaluation committee database by random ballot, and experts with conflict of interest in the given tender would be excluded. In addition, there are also rules and punishment in place in the BEC Manual governing the conduct of the bid evaluation committee which include, among other things, (i) documents related to the tender offer should be kept strictly confidential under all circumstances; (ii) the member of bid evaluation committee must not have private contact and receive benefits from any potential contractors under all circumstances; and (iii) the member of bid evaluation committee must evaluate the technical report independently and must not exert any influence on the

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judgment of other experts. It is confirmed by the Directors that they did not notice any violation of the abovementioned policies, during the three years ended 31 December 2019 and up to the Latest Practicable Date.

With the above management manuals in place and continued to be implemented effectively, we are of the view that there are effective measures to ascertain that the Group's tender process including the evaluation mechanism in recommending the selection of the tender bids would be fair and reasonable so far as the Independent Shareholders are concerned.

For assessing the tender process, we have discussed with the management and reviewed a total of 15 sample tendering processes on past projects randomly selected from the Company's project list for the three years ended 31 December 2019 and the six months ended 30 June 2020 (the "**Review Period**") to assess the rationale, procedures and selection basis of the Group's tender procedure. We have been advised by the management that, save as Jiangxi Silver Dragon, no connected person of the Company had previously participated in the tendering process for the Group's construction contract during the Review Period such that all the samples selected were tenders submitted by independent contractors. Based on our review, we noted that all the contractors invited to submit the bid for the sampled tenders were included in the Company's list of qualified construction contractors. All of our selected samples had at least three contractors participated in the tender. There were at least three members in the bid evaluation committee in all of our selected samples, and each bidding application were evaluated and ranked in accordance with the tender evaluation standards, including the bidding price, commercial aspects, and technical aspects (where applicable). We also noted that there was a written report which summarized the scores provided by the bid evaluation committees and contained a list of candidates for the winning bid with order indicated in the report in all of our selected samples. We noticed that the Group's major criteria for selecting the winning bid would usually be the ones conforming to the technical requirements with a reasonable minimum price offered, and the construction contract was entered into accordingly with the bid winner.

Based on the review of the above samples, we noted that the tender process as stated above has been adhered to and the procedural steps in the tender bids evaluation process has been followed through.

Taking in account (i) there are systemic procedure and sufficient measurement in the Group to process and select tender for construction contract, and (ii) the sampled tenders were reviewed against the stated processes under the Group's tender procedures, we consider that the selection of contractors by way of tender, and accordingly to determine the contract sum for each separate agreement in the tender process under the Construction Services Agreement is a fair and reasonable means to award a contract, including the contract price as provided under the tender, so far as the Independent Shareholders are concerned. Accordingly, we concur with the view of the Directors that the construction fees to be paid by the Group to Jiangxi Silver



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Dragon, if it is selected in accordance with the tender process, shall be in line with the prevailing market prices from time to time and are on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole.

### 5. Historical transaction amounts and the Proposed Annual Caps

#### *Historical transaction amounts*

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 Latest Practicable Date, save for the Existing Construction Contract, the Group has not entered into any other contract with Jiangxi Silver Dragon nor incurred any other historical transaction amounts for the construction services provided by Jiangxi Silver Dragon.

#### *Proposed Annual Caps and basis*

<b>For the period commencing from date of the Construction Services Agreement and ending on 31 December 2020</b> <i>RMB million</i>	<b>For the year ending 31 December 2021</b> <i>RMB million</i>	<b>For the year ending 31 December 2022</b> <i>RMB million</i>
180.0	300.0	300.0

As set out in the Letter from the Board, 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

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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.

It is also set out in the Letter from the Board that the Proposed Annual Caps are determined based 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.

In relation to the above, we have discussed with the management and have been advised that the construction cost of the Group depends, among other thing, on the number of projects undertaken by the Group in a specific year and the construction progress of the relevant projects from time to time. We have reviewed the annual reports of the Company for the years ended 31 December 2017, 2018 ad 2019 and noted that the Group's construction cost ranged from approximately RMB1,046.6 million to RMB1,402.6 million. We have also reviewed the interim report of the Company for the six months ended 30 June 2020 ("**2020 Interim Period**") and noted that the Group recorded an increase in construction cost of approximately 46.1% in 2020 Interim Period as compared to the corresponding period in 2019, which was mainly due to the increase in the construction work of existing and new projects. Based on the aforesaid, we considered that the management's estimation of the Group's total construction costs for the years ending 31 December 2020, 2021 and 2022 of approximately RMB1,250.0 million, RMB1,500.0 million and RMB1,500.0 million respectively is in line with the Group's historical financial performance, in particular the increase in construction cost incurred in 2020 Interim Period, and the Group's future plan to continue to focus on its urban water treatment business as disclosed in its 2020 Interim Report.

When determining the Proposed Annual Caps, we understand from the Company that it has taken into account the total construction costs arising or expected to arise, from the Existing Construction Contract and construction contracts expected to be entered into, with Jiangxi Silver Dragon for the two financial years ending 31 December 2021. To assess the fairness and reasonableness of the Proposed Annual Caps, we have obtained and reviewed (i) the Existing Construction Contract with Jiangxi Silver Dragon and the minutes for the meeting convened by the management in relation to the review on the latest progress of this project; (ii) the list of projects with expected construction works scheduled or planned and to be awarded by the Group during the years ending 31 December 2020 and 2021, of which the tender process has not commenced and/or the relevant construction work has not been commenced (the "**Potential Projects**"), which set out the details of the project scale and location, expected commencement and completion date, and the indicative participation of Jiangxi Silver Dragon in the relevant tenders; and (iii) where available, the advanced draft feasibility reports or project proposals prepared



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by the relevant design and research institution for the Potential Projects. Based on our review of the information provided by the Management, it is noted that:

- (a) the Proposed Annual Caps for the year ending 31 December 2020 of RMB180 million is calculated with reference to: (i) the construction services under the Existing Construction Contract, with contract sum of RMB71.0 million, which is expected to be substantially completed before the end of 2020 according to the contract period; and (ii) one potential construction project expected to be entered into with Jiangxi Silver Dragon with an estimated total contract sum of RMB298.0 million (“**Potential Project I**”) which Jiangxi Silver Dragon is qualified to participate in the tender in the last quarter of 2020. The construction works of Potential Project I is expected to be commenced in late November 2020 and the amount of construction works to be completed before the end of 2020 is estimated to be approximately RMB100.0 million; and
- (b) based on the information currently available to the Group, there are approximately 12 Potential Projects which Jiangxi Silver Dragon is qualified to participate in the relevant tenders for the years ending 31 December 2020 and 2021, and the estimated contract sum for four out of the 12 Potential Projects with the indicative participation of Jiangxi Silver Dragon is approximately RMB363.8 million in total. As advised by the management and based on our review of the draft feasibility reports or project proposals, the construction contracts of these four Potential Projects are expected to be entered into by the end of 2021. Together with the estimated contract sums of the Existing Construction Contract and Potential Project I, it is estimated that the total contract sum of the Group’s construction works which Jiangxi Silver Dragon has been contracted and expected to be engaged in or qualified for tendering for the three years ending 31 December 2022 will be no less than RMB730.0 million. We also noted that the amount of construction works to be completed on the Potential Project I and the four Potential Projects as mentioned above is estimated to be approximately RMB274.3 million and RMB275.5 million for each of the years ended 31 December 2021 and 2022, respectively.

	<b>Proposed Annual Caps for the year ending 31 December</b>		
	<b>2020</b> <i>(RMB million)</i>	<b>2021</b> <i>(RMB million)</i>	<b>2022</b> <i>(RMB million)</i>
<b>Estimated amount of construction works for:</b>			
Existing Construction Contract	71.0	—	—
Potential Project I	100.0	198.0	—
Other Potential Projects (as discussed in (b) above)	—	76.3	275.5
<b>Total</b>	<b><u>171.0</u></b>	<b><u>274.3</u></b>	<b><u>275.5</u></b>

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Further, we have discussed with the management and understood that, in addition to the abovementioned four Potential Projects with Jiangxi Silver Dragon's indicative participation, Jiangxi Silver Dragon may opt to tender any other Potential Projects, depending on, among other things, the timing and actual terms of the tenders and its then available capacity. Also, the Group may also acknowledge additional potential wastewater treatment projects in the coming year of which the construction works may commence before the end of 2022. Therefore, in the event that Jiangxi Silver Dragon is not engaged in any of the four Potential Projects as aforesaid, it is not unlikely that Jiangxi Silver Dragon may be awarded of other projects of the Group through tenders during the terms of the Construction Services Agreement.

Based on the above, we are of the view that these estimations are made based on firm grounds and form a reasonable basis for the Proposed Annual Caps for each of the years ending 31 December 2022 by taking into account: (a) the management's estimation of the Group's total construction costs for each of the three years ending 31 December 2022, which is in line with the Group's historical and latest financial performance; (b) the estimated contract sums and duration of the Existing Construction Contract, Potential Project I, and other Potential Projects which Jiangxi Silver Dragon may be engaged during the three years ending 31 December 2022; and (c) the increase in the average market rates, which is expected to remain relatively low based on the low inflation rates as represented by the recent growth of China's consumer price index of around 2.4%. We are also of the view that the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole. However, as the Proposed Annual Caps related to future events and are based on assumptions that may or may not remain valid for the three years ending 31 December 2022 and the actual transaction amounts would be subject to tendering, we express no opinion as to how closely the actual transaction amounts to be generated under the transactions correspond with the Proposed Annual Caps of RMB180.0 million, RMB300.0 million and RMB300.0 million for the years ending 31 December 2020, 2021 and 2022 respectively.

Besides, we have obtained and reviewed the list of top five suppliers, in terms of transaction amount, and noted that the Group engaged a diversified group of suppliers and the largest supplier accounted for approximately 9.2%, 7.1%, and 5.3% of total construction costs incurred by the Group for the years ended 31 December 2017, 2018 and 2019 respectively. Notwithstanding that the Proposed Annual Caps represent 14.4%, 20% and 20% of the total construction costs incurred and/or estimated to be incurred by the Group for each of the years ending 31 December 2020, 2021 and 2022 as set out in the Letter from the Board, the Directors are of the

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view that the Group would not have excessive reliance on Jiangxi Silver Dragon for construction services as the Group will select service provider for construction works and services through a tender process and independent third parties and Jiangxi Silver Dragon have equal opportunities in the tender process. During such process, the Group takes into account factors such as technical experience, professional qualifications, business reputation, project management abilities of all the tenderers, total expenses and other relevant factors when selecting and assessing potential tenders. It is at the Group's own discretion to determine whether to engage the service of Jiangxi Silver Dragon or independent service providers, subject to its successful tender, in the interests of the Company and the Shareholders. Therefore, we concur with the view of the Directors that the Group will not have excessive reliance on Jiangxi Silver Dragon for construction services.

### **6. Listing Rules' requirements and internal control procedures**

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors are required to review the Group's continuing connected transactions annually and confirm in the Company's annual report that they have been carried out (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In compliance with Rule 14A.55 of the Listing Rules, the Company will engage auditors to report on the Group's continuing connected transactions in relation to the Construction Services Agreement for the term commencing from the date of Construction Services Agreement and ending on 31 December 2022.

In light of the annual review requirements for the continuing connected transactions pursuant to Rules 14A.55 and 14A.56 of the Listing Rules, in particular, (i) the restriction of the value of the continuing connected transactions by way of the Proposed Annual Caps; and (ii) the ongoing review by the independent non-executive directors and external auditors of the Company on the terms of the continuing connected transactions and the Proposed Annual Caps not being exceeded, we are of the view that there are appropriate internal control measures (further details are set out in the Letter from the Board) in place to govern the conduct of the transactions contemplated under the Construction Services Agreement and to safeguard the interests of the Independent Shareholders.

### **RECOMMENDATION**

Having considered the above principal factors and reasons, we are of the view that (i) the Construction Services Agreement, together with the Proposed Annual Caps, has been entered into on normal commercial terms, in the ordinary and usual course of the business of the Group and the terms of which are fair and reasonable so far as the Independent Shareholders are concerned, (ii) the entering into of the Construction Services Agreement is in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent

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Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the Construction Services Agreement, the transactions contemplated thereunder and the Proposed Annual Caps.

Yours faithfully,  
For and on behalf of  
**Fortune Financial Capital Limited**  
**Pinky Chim**  
*Executive Director*

*Ms. Pinky Chim (“Ms. Chim”) is a responsible officer of Fortune Financial Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO. Ms. Chim has over seven years of experience in corporate finance advisory in Hong Kong.*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes the particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Directors' and chief executive's interests and short position in Shares, underlying Shares and debentures

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV to the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO), or are required, pursuant to Section 352 of the SFO, to be recorded in the register required to be kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules are listed as follows:

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of issued share capital of the Company
Mr. Zhao Juanxian <sup>(1)</sup> (alias, Zhao Junxian)	Person acting in concert (long position)	546,728,004	25.56%
Mr. Li Zhong	Beneficial owner (long position)	10,000,000	0.47%
Ms. Liu Yujie	Beneficial owner (long position)	10,000,000	0.47%
Mr. Duan, Jerry Linnan	Beneficial owner (long position)	10,000,000	0.47%
Mr. Chau Kam Wing	Beneficial owner (long position)	2,000,000	0.09%
Mr. Chang Qing	Beneficial owner (long position)	2,000,000	0.09%
Mr. Peng Yongzhen	Beneficial owner (long position)	2,000,000	0.09%

Notes:

- (1) By virtue of Mr. Zhao Juanxian acting in concert with Mr. Zhao Sizhen, being the son of Mr. Zhao Juanxian, under the SFO, Mr. Zhao Juanxian is deemed to be interested in Mr. Zhao Sizhen's interests in the Company.

Save as disclosed above, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

**(b) Substantial shareholders' interests and short position in Shares and underlying Shares**

As at the Latest Practicable Date, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of Interest	Number of Shares	Percentage of Issued Share Capital of the Company
China Water Affairs Group Limited <sup>(1)(5)</sup>	Interest of controlled corporation (long position)	953,119,996	44.54%
Sharp Profit Investments Limited (“Sharp Profit”) <sup>(1)(5)</sup>	Beneficial owner (long position)	953,119,996	44.54%
Mr. Zhao Sizhen <sup>(2)</sup>	Interest of controlled corporation (long position)	543,828,004	25.42%
	Beneficial owner (long position)	2,900,000	0.14%
Kangda Holdings Company Limited <sup>(3)</sup>	Beneficial owner (long position)	543,828,004	25.42%
Baring Private Equity Asia V Holding (5) Limited (“BPEA V”) <sup>(4)(5)</sup>	Beneficial owner (long position)	344,129,996	16.08%
	Beneficial owner (short position)	344,129,996	16.08%
The Baring Asia Private Equity Fund V, L.P. <sup>(4)(5)</sup>	Interest of controlled corporation (long position)	344,129,996	16.08%
	Interest of controlled corporation (short position)	344,129,996	16.08%
Baring Private Equity Asia GP V, L.P. <sup>(4)(5)</sup>	Interest of controlled corporation (long position)	344,129,996	16.08%
	Interest of controlled corporation (short position)	344,129,996	16.08%

Name	Capacity/Nature of Interest	Number of Shares	Percentage of Issued Share Capital of the Company
Baring Private Equity Asia GP V Limited <sup>(4)(5)</sup>	Interest of controlled corporation (long position)	344,129,996	16.08%
	Interest of controlled corporation (short position)	344,129,996	16.08%
Mr. Jean Eric Salata <sup>(4)(5)</sup>	Interest of controlled corporation (long position)	344,129,996	16.08%
	Interest of controlled corporation (short position)	344,129,996	16.08%

*Notes:*

- (1) Sharp Profit is wholly owned by China Water Affairs Group Limited. China Water Affairs Group Limited is therefore deemed to be interested in Sharp Profit's interests in the Company under the SFO.
- (2) By virtue of Mr. Zhao Juanxian acting in concert with Mr. Zhao Sizhen, under the SFO, Mr. Zhao Juanxian is deemed to be interested in Mr. Zhao Sizhen's interests in the Company.
- (3) Kangda Holdings Company Limited is wholly-owned and controlled by Mr. Zhao Sizhen and Mr. Zhao Sizhen is therefore deemed to be interested in the shares held by Kangda Holdings Company Limited under the SFO.
- (4) BPEA V is held as to approximately 99.35% by The Baring Asia Private Equity Fund V, L.P. Baring Private Equity Asia GP V, L.P., is the general partner of The Baring Asia Private Equity Fund V, L.P. Mr. Jean Eric Salata is the sole shareholder of Baring Private Equity Asia GP V Limited, the general partner of Baring Private Equity Asia GP V, L.P. Each of The Baring Asia Private Equity Fund V, L.P., Baring Private Equity Asia GP V, L.P., Baring Private Equity Asia GP V Limited and Mr. Jean Eric Salata is deemed to be interested in BPEA V's interests in the Company. Mr. Jean Eric Salata disclaims beneficial ownership of such interests, other than to the extent of his economic interest in such entities.
- (5) On 8 May 2020, BPEA V issued exchangeable bonds with principal amount of HK\$361,336,495.8 to Sharp Profit ("**Exchangeable Bonds**"), which entitled the holder of the Exchangeable Bonds to exchange for 344,129,996 shares of the Company (at the initial exchange price of HK1.05 per share of the Company) beneficially owned by BPEA V. As at the Latest Practicable Date, Sharp Profit beneficially owned 608,990,000 shares of the Company and is the holder of the Exchangeable Bonds with principal amount of HK\$361,336,495.8 which are exchangeable into 344,129,996 shares of the Company beneficially owned by BPEA V.

Save as disclosed above, and as at the Latest Practicable Date, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

**(c) Other positions of Directors**

Mr. Li Zhong, Ms. Liu Yujie, Mr. Duan, Jerry Linnan and Mr. Chau Kam Wing are directors of China Water.

Save as disclosed above, and as at the Latest Practicable Date, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the issuer which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**3. DISCLOSURE OF OTHER INTERESTS****(a) Interests in contracts or arrangement**

Save as disclosed in this circular, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

**(b) Interests in assets**

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2019, being the date to which the latest published audited accounts of the Company were made up.

**(c) Interests in competing business**

As at the Latest Practicable Date, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

**4. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors or proposed directors had any existing service contract or proposed service contract with the Company or any of its subsidiaries (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

**5. MATERIAL ADVERSE CHANGE**

The Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019 (being the date to which the latest published audited financial statements of the Company have been made up) and up to the Latest Practicable Date.



## 6. QUALIFICATION AND CONSENT OF EXPERT

The following are the qualifications of the expert who has given opinion or advice, which are contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Fortune Financial	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

Fortune Financial has given, and has not withdrawn, its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which it appears. The letter from the above expert is given as of the date of this circular for incorporation herein.

As at the Latest Practicable Date, Fortune Financial is not beneficially interested in the share capital of any member of the Group nor does it has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor does it has any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

## 7. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Wong Wan Sing. Mr. Wong Wan Sing is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

## 8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours at the principal place of business of the Company in Hong Kong at Suite 6409, 64/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including the date of the EGM:

- (i) the Construction Services Agreement;
- (ii) the “Letter from the Independent Board Committee” as set out in this circular;

- (iii) the “Letter from Fortune Financial” as set out in this circular;
- (iv) the written consent of Fortune Financial referred to in the section headed “Qualification and Consent of Experts” in this appendix; and
- (v) this circular.

## NOTICE OF THE EGM



### 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)**

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting (the “**EGM**”) of Kangda International Environmental Company Limited (the “**Company**”) will be held at Suite 6409, 64/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 16 November 2020 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolution as an ordinary resolution of the Company:

#### ORDINARY RESOLUTION

**“THAT:**

- (i) the Construction Services Agreement dated 25 September 2020 entered into between Kangda Investment (Hong Kong) Company Limited (康達投資(香港)有限公司) and Jiangxi Silver Dragon Water Environment Construction Co., Ltd.\* (江西銀龍水環境建設有限責任公司) (“**Jiangxi Silver Dragon**”) (a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for identification purposes) in relation to the provision of construction works and services for the wastewater treatment facilities of the Company and its subsidiaries (the “**Group**”) according to the tender documents and the construction contracts signed or to be signed between Jiangxi Silver Dragon and the Group from time to time for a term commencing from the date of the Construction Services Agreement and ending on 31 December 2022 and the transactions contemplated under it be and are hereby approved, confirmed and ratified (terms defined in the circular dated 30 October 2020 (the “**Circular**”) shall have the same meanings when used in this resolution);
- (ii) the proposed annual caps as set out in the Circular, being the expected construction costs incurred by the Group for the construction works and services to be provided by Jiangxi Silver Dragon under the Construction Services Agreement for the period commencing from the date of the Construction Services Agreement and ending on 31 December 2020 and the two years ending 31 December 2022, be and are hereby approved and confirmed; and
- (iii) the execution of the Construction Services Agreement by any one or more of the directors of the Company (the “**Directors**”) be and is hereby approved, ratified and confirmed and any director of the Company be and is hereby authorised, for and on

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behalf of the Company, to do all such acts and things and to sign, execute, seal (where required) and deliver all such documents and to take all such steps as he in his discretion may consider necessary, appropriate, desirable or expedient to give effect to implement or in connection with or incidental to the Construction Services Agreement and any and all of the transactions contemplated thereunder.”

\* *For identification purpose only*

By order of the board of Directors  
**Kangda International Environmental Company Limited**  
**LI Zhong**  
*Co-Chairman*

Hong Kong, 30 October 2020

*As at the date of this notice, 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.*

*Notes:*

1. Unless otherwise defined, capitalized terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 30 October 2020 relating to, among other things, the Construction Services Agreement and the Proposed Annual Caps.
2. Any shareholder entitled to attend and vote at the meeting is entitled to appoint one or, if he/she is holder of more than one share, more proxies to attend and vote instead of him/her. A proxy need not be a shareholder of the Company.
3. In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed must be deposited at the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting (or any adjournment thereof).
4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney or other person duly authorized.
5. Delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.
6. The vote at the meeting will be taken by poll.
7. In view of the current development of the Novel Coronavirus (“COVID-19”), the Company will implement the following preventive measures at the EGM, including:
  - compulsory wearing of appropriate face masks for all participants
  - no distribution of corporate gifts or refreshments

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Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the venue of the EGM. The Company also encourages its shareholders to consider appointing the chairman of the meeting as its/his/her proxy to vote on the relevant resolutions at the EGM as an alternative to attending the meeting in person. Subject to the development of COVID-19, the Company may implement further changes and precautionary measures and may issue further announcement on such measures as appropriate.

8. The transfer books and register of members of the Company will be closed from Wednesday, 11 November 2020 to Monday, 16 November 2020, both days inclusive, to determine the entitlement of the shareholders to attend the above meeting, during which period no share transfers can be registered. All transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 10 November 2020.