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Kunming Dianchi Water Treatment Co., Ltd.

昆明滇池水务股份有限公司

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 3768)

DISCLOSEABLE TRANSACTION IN RELATION TO THE PROVISION OF ENTRUSTED LOAN TO KUNMING DEVELOPMENT

PROVISION OF ENTRUSTED LOAN

The Board announces that the Company entered into the Entrusted Loan Contract with Kunming Development and Chenggong District Rural Credit Cooperative on 24 October 2022, pursuant to which the Company entrusted Chenggong District Rural Credit Cooperative to provide a RMB200 million loan to Kunming Development.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Entrusted Loan Transaction are more than 5% and less than 25%, the transaction constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

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I. THE ENTRUSTED LOAN CONTRACT

Salient terms of the Entrusted Loan Contract are set out below:

Date of the Entrusted Loan Contract	24 October 2022
Parties	(i) Kunming Development (as borrower) (ii) the Company (as trustor) (iii) Chenggong District Rural Credit Cooperative (as trustee)
Term of entrusted loan	11 months, i.e. from 24 October 2022 to 24 September 2023, and if there is an early maturity of the entrusted loan declared in accordance with the Entrusted Loan Contract, the loan shall be deemed to become due at an earlier date accordingly and the interest shall be calculated based on the actual number of days and amount used.
Principal amount of the entrusted loan	RMB200 million
Interest rate	The interest rate is fixed at 8.5% per annum calculated by adding 485 basis points to the prime rate for a one-year loan for one day prior to the date of the Entrusted Loan Contract. Interest shall be paid quarterly and the interest settlement date is the 20th day of the last month of each quarter.
Release of loan	The principal of entrusted loan under the Entrusted Loan Contract will be released to Kunming Development in one lump sum. The conditions precedent for the release of the principal of entrusted loan include the borrower having opened an account with the trustee in accordance with the trustee's requirements; the borrower having submitted a withdrawal application to the Company in advance in accordance with the deadline stipulated in the Entrusted Loan Contract, etc.
Repayment of loan	Interest is payable quarterly in arrears and principal is repaid in one lump sum upon maturity. All principal, interest, etc. are required to be settled by the date of expiry of the term of entrusted loan.

Early repayment and extension of loan

With the consent of the Company, Kunming Development may repay part or all of the loan within the term of the entrusted loan after completing the formalities in accordance with the relevant provisions of the Entrusted Loan Contract.

If Kunming Development needs to extend the entrusted loan, Kunming Development shall submit a written application for extension to the Company at least 30 days prior to the maturity date of the Entrusted Loan Contract or an individual loan which shall be reviewed and approved by the Company, and the extension agreement shall be signed in accordance with relevant terms before the loan can be extended accordingly. If the Company does not agree with the extension, Kunming Development shall repay the principal and interest of the entrusted loan in accordance with the terms of the Entrusted Loan Contract.

Service charge

RMB10,000, which shall be borne by the Company and shall be paid in one lump sum to the trustee within 7 days from the date of signing of the Entrusted Loan Contract.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiry, as of the date of this announcement, Kunming Development is not a connected person as defined under the Listing Rules. Chenggong District Rural Credit Cooperative is a third party independent of the Company and its connected person(s).

The Company will use its own funds to fund the loan under the Entrusted Loan Contract.

Basis of the Interest Rate

The fixed annual interest rate of 8.5% under the Entrusted Loan Contract was negotiated on an arm's length basis between the Company and Kunming Development based on (1) the fact that the interest rate under the Entrusted Loan Contract was up by 4.85% as compared to the prime rate of 3.65% for 1-year loans denominated in RMB promulgated by the National Interbank Funding Center as at 20 October 2022; (2) prevailing market interest rate and practices; (3) the average interest rate of the Company's financing and returns within a reasonable range; and (4) the Company's assessment on the business conditions and creditworthiness of Kunming Development.

II. REASONS FOR AND BENEFITS OF THE ENTRUSTED LOAN TRANSACTION

To the knowledge of the Company, Kunming Development will be utilising the funds from the Company for replenishment of its working capital.

By providing entrusted loans to Kunming Development, the Company can increase its revenue and, at the same time, can increase its cooperation with Kunming Development in innovative financing models.

For the above reasons, all Directors of the Board other than Ms. Ren Na, Mr. Yin Xiaobing and Mr. Ong King Keung (the “**Dissenting Directors**”) believe that the Entrusted Loan Transaction is entered into on normal commercial terms, and is fair and reasonable and in the interests of the Company and its shareholders as a whole. Ms. Ren Na, Mr. Yin Xiaobing and Mr. Ong King Keung all abstained from voting at the meeting of the Board. Among them, Ms. Ren Na abstained from voting mainly because she considered that the overall risks of the transaction were uncertain; Mr. Yin Xiaobing abstained from voting mainly because he considered that the Company had entrusted more loans to external parties; Mr. Ong King Keung abstained from voting mainly because he considered that the entrusted loan was not within the scope of the principal business of the Company.

All Directors of the Board have given due and careful consideration to the Entrusted Loan Transaction and the opinions of the Dissenting Directors. All Directors of the Board other than the Dissenting Directors were of the unanimous view that:

- (i) prior to entering into the Entrusted Loan Transaction, the Company made enquiries and conducted investigations into the financial statements, debt position (including whether there is any default) for the last three years, future development and other publicly available information of Kunming Development. Based on the assessment of the cash flow, solvency and operating status of Kunming Development in the last three years, Kunming Development is considered to be solvent. Moreover, pursuant to the terms of the Entrusted Loan Contract, Kunming Development is obliged to notify the Company of any changes in its financial position or its material asset transfers and other matters that may affect the realisation of the Company’s claims. The Company will continue to monitor the relevant information of Kunming Development and continuously assess its creditworthiness, and will take appropriate measures in a timely manner in the event of any material adverse changes to safeguard the Company’s capital under the Entrusted Loan Transaction. The Company’s exposure to credit risk under the Entrusted Loan Transaction is generally controllable.
- (ii) As at the date of this announcement, the Company has only one external entrusted loan contract that has not expired (for details, please refer to the announcement of the Company dated 9 June 2022). Except for the aforementioned unexpired external entrusted loans, the Company has no other external entrusted loans.
- (iii) Although the Entrusted Loan Transaction is not the principal business of the Company, based on the Company’s business plan and use of funds, the Entrusted Loan Transaction can bring revenue to the Company, hedge the Company’s finance costs and at the same time increase the cooperation with Kunming Development in innovative financing models. According to the Company’s 2022 interim report published on 5 September 2022, the Company recorded net current assets as at 30 June 2022.
- (iv) In determining the interest rate for the Entrusted Loan Transaction, the Company has made reference to the prime rate for a one-year RMB loan published by the National Interbank Funding Center on 20 October 2022, and the interest rate for this transaction is 485 basis points higher than such loan prime rate. The Entrusted Loan Transaction is fair and reasonable and the relevant terms are in the interests of the Company as a whole.

In view of the above, all Directors other than the Dissenting Directors voted in favour of the Board’s resolution to approve the Entrusted Loan Transaction.

III. GENERAL INFORMATION

The Company

The Company is a leading municipal wastewater treatment and reclaimed water supply services provider in Yunnan Province, the PRC, an integrated water-related services (including running water supply service) provider and a core enterprise implementing the PRC's strategic goal to treat pollutants at Dianchi Lake.

Kunming Development

Kunming Development is a wholly state-owned company wholly owned directly by Kunming SASAC, and is a key industrial entity for deepening the government's investment and financing system reform and operation of urban public economic resources in Kunming city. The principal business of Kunming Development includes: investment in and financing of major infrastructure, various industries and major projects within the area of Kunming city; investment in and financing of land acquisition, reservation and development under the authorization of the Kunming Municipal Government; state-owned assets operation, real estate development, land development business under the authorization of the Kunming Municipal Government; investment, operation and management of agricultural and water conservancy projects.

Chenggong District Rural Credit Cooperative

Chenggong District Rural Credit Cooperative is a China-based financial institution that is mainly engaged in taking public deposits and providing loans and other activities.

IV. LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Entrusted Loan Transaction are more than 5% and less than 25%, the transaction constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

V. DEFINITIONS

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

“Board”	the board of Directors
“Chenggong District Rural Credit Cooperative”	Kunming Chenggong District Rural Credit Cooperative* (昆明市呈貢區農村信用合作聯社), a third party independent of the Company and its connected person(s)
“Company”	Kunming Dianchi Water Treatment Co., Ltd. (昆明滇池水務股份有限公司), a joint stock company incorporated in the PRC with limited liability on 23 December 2010, and its H Shares are listed on the Stock Exchange (stock code: 3768)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the director(s) of the Company
“Entrusted Loan Contract”	the Entrusted Loan Contract entered into by the Company with Kunming Development and Chenggong District Rural Credit Cooperative on 24 October 2022
“Entrusted Loan Transaction”	the transaction contemplated under the Entrusted Loan Contract, namely the provision of a RMB200 million loan by Chenggong District Rural Credit Cooperative to Kunming Development as entrusted by the Company
“H Shares”	overseas listed foreign shares of RMB1.00 each in the ordinary share capital of the Company, which are listed on the Main Board of the Stock Exchange and traded in Hong Kong dollars
“Kunming Development”	Kunming Development and Investment Group Co., Ltd.* (昆明發展投資集團有限公司), a wholly state-owned limited liability company incorporated in the PRC on 27 January 2010, which holds 20,959,760 domestic shares as of the date of this announcement, representing 2.04% of the total share capital of the Company, and is not a connected person as defined under the Listing Rules
“Kunming SASAC”	the State-owned Assets Supervision and Administration Commission of the Kunming People’s Government (昆明市人民政府國有資產監督管理委員會)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time

“PRC” or “China”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

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

Kunming, the PRC, 24 October 2022

As of the date of this announcement, the Board comprises Mr. Zeng Feng, Mr. Chen Changyong and Mr. Luo Yun, as executive Directors; Ms. Song Hong, Ms. Ren Na and Ms. Yu Yanbo, as non-executive Directors; and Mr. Yin Xiaobing, Ms. Zheng Dongyu and Mr. Ong King Keung, as independent non-executive Directors.

* *For identification purpose only*