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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)

MAJOR TRANSACTION ENTERING INTO THE SUPPLEMENTAL AGREEMENT IN RELATION TO THE FINANCE LEASE ARRANGEMENT

FINANCE LEASE ARRANGEMENT AND ITS SUPPLEMENTAL AGREEMENT

References are made to the announcement of the Company dated 24 December 2021 (the “**Announcement**”) and the circular of the Company dated 25 February 2022 in relation to the entering into of the Finance Lease Agreement between the Company and Industrial Bank Financial Leasing on 24 December 2021, pursuant to which Industrial Bank Financial Leasing agreed to (i) purchase the Leased Assets from the Company at a purchase price of RMB400 million, and (ii) lease back the Leased Assets to the Company for a term of five years. Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcement.

The Board announces that after arm’s length negotiations, the Company entered into the Supplemental Agreement with Industrial Bank Financial Leasing on 20 June 2023 (after trading hours) to adjust and supplement the lease term, lease interest rate and rental payment arrangement etc. of the Finance Lease Agreement and the Finance Lease Arrangement thereunder. Except for the amendments and supplements specified in the Supplemental Agreement, other terms of the Finance Lease Agreement remain unchanged.

LISTING RULES IMPLICATIONS

Pursuant to Rule 14.36 of the Listing Rules, as the Supplemental Agreement constitutes a material change to the terms of the Finance Lease Agreement and as one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Supplemental Agreement and the transactions contemplated thereunder exceed 25% but are less than 100%, the entering into of the Supplemental Agreement and the transactions contemplated thereunder constitute a major transaction of the Company and are therefore subject to compliance with the notice, announcement, circular and Shareholders’ approval requirements under Chapter 14 of the Listing Rules.

According to Rule 14.44 of the Listing Rules, Shareholders' approval may be obtained in the form of written Shareholders' approval in lieu of convening a general meeting. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder has a material interest in the transactions contemplated under the Supplemental Agreement. Accordingly, no Shareholder is required to abstain from voting if a general meeting is required to be convened to approve the entering into of the Supplemental Agreement and the transactions contemplated thereunder.

As at the date of this announcement, Kunming Dianchi Investment directly holds 660,266,893 shares of the Company (representing approximately 64.16% of the total number of issued shares of the Company). As the Company has obtained the written approval from Kunming Dianchi Investment, according to Rule 14.44 of the Listing Rules, the Company will not convene an extraordinary general meeting for the purpose of approving the entering into of the Supplemental Agreement and the transactions contemplated thereunder.

According to Rule 14.41(a) of the Listing Rules, a circular containing, among other things, details of the Supplemental Agreement and other information required to be disclosed under the Listing Rules is required to be despatched to the Shareholders within 15 business days after the date of this announcement (i.e. on or before 12 July 2023). As additional time is required to prepare the financial and other information to be included in the circular, the Company may not be able to despatch the circular within such period, in which case the Company will apply to the Stock Exchange for a waiver from strict compliance with Rule 14.41(a) of the Listing Rules and will make a further announcement in relation to the expected despatch date of the circular in due course.

The Board announces that after arm's length negotiations, the Company entered into the Supplemental Agreement with Industrial Bank Financial Leasing on 20 June 2023 (after trading hours) to adjust and supplement the lease term, lease interest rate and rental payment arrangement etc. of the Finance Lease Agreement and the Finance Lease Arrangement thereunder. Except for the amendments and supplements specified in the Supplemental Agreement, the other terms of the Finance Lease Agreement remain unchanged.

I. SUPPLEMENTAL AGREEMENT

Except for the amendments and supplements specified in the Supplemental Agreement, all other terms and conditions of the Finance Lease Agreement shall continue to apply to the Finance Lease Arrangement. The principal terms of the Finance Lease Agreement and the Supplemental Agreement are as follows:

	Finance Lease Agreement	Supplemental Agreement
Date:	24 December 2021	20 June 2023
Parties:	(i) Industrial Bank Financial Leasing, as lessor and purchaser; and (ii) the Company, as lessee and seller.	No change.

Finance Lease Agreement**Supplemental Agreement****Leased Assets:**

Certain assets of wastewater treatment and other equipment and facilities in which the Company has sole ownership and disposal rights, which will be firstly purchased from the Company by Industrial Bank Financial Leasing and leased back to the Company.

No change.

Purchase price and delivery:

RMB400 million. Such amount was determined by the Company and Industrial Bank Financial Leasing after arm's length negotiation with reference to (i) the carrying value of the Leased Assets; (ii) the amount of financing required by the Company under the Finance Lease Arrangement; and (iii) the prevailing interest rate of the Finance Lease Arrangement offered by Industrial Bank Financial Leasing to its customers.

As at the date of this announcement, Industrial Bank Financial Leasing has paid in full to the Company the purchase price as agreed in the Finance Lease Agreement in accordance with the relevant provisions of the Finance Lease Agreement and no additional purchase price is required to be paid for the entering into of the Supplemental Agreement.

The Directors consider that the purchase price is fair and reasonable as the financing ratio of approximately 92.80% based on the Finance Lease Agreement is within the normal range of financing ratios for other finance lease arrangements offered by Industrial Bank Financial Leasing to other third parties.

Finance Lease Agreement**Supplemental Agreement**

The purchase price shall be paid to the Company by instalment within 30 business days after fulfillment of the conditions precedent to payment under the Finance Lease Agreement, and such conditions include but are not limited to the execution of the Finance Lease Agreement by both parties, Industrial Bank Financial Leasing having received a debit mandate from the Company in respect of the lease handling fee under the Finance Lease Agreement, Industrial Bank Financial Leasing having received a valid resolution from the Company's authorized entity approving the transaction under the Finance Lease Agreement, and if the transfer of title of the Leased Assets requires relevant registration procedures, the Company having completed such registration procedures.

Finance Lease Agreement

Supplemental Agreement

Lease term:

60 months from the lease commencement date. The lease commencement date is the date on which Industrial Bank Financial Leasing pays the first instalment of purchase price of the Leased Assets to the Company.

The lease term is divided into ten consecutive lease periods (“**Lease Period(s)**”) of six months each. The first Lease Period shall commence on the lease commencement date and end on the 19th calendar day of the sixth month following the lease commencement date, and each subsequent Lease Period shall commence on the day following the end of the previous Lease Period and end on the day immediately preceding the calendar day corresponding to such day (i.e., the day following the end of the previous Lease Period) six months later, provided that the last Lease Period shall commence on the day following the end of the previous Lease Period and end on the last day of the entire lease term.

The lease term was extended from 60 months to 71 months and the expiration date was extended to 26 November 2027 accordingly. The Lease Period was changed from 10 Lease Periods to 12 Lease Periods.

The start and end dates of the 1st to 3rd Lease Periods and the Rent Payment Date shall not be adjusted. The start date of the 4th Lease Period shall not be adjusted and its end date shall be adjusted to 9 November 2023, with each subsequent Lease Period commencing on the day after the end of the previous Lease Period and ending on the day before the calendar date corresponding to such date six months later (i.e., the day after the end of the previous Lease Period), provided that the last Lease Period shall commence on the day after the end of the previous Lease Period and end on the last day of the entire lease term; the rent applicable to each Lease Period shall be payable on the day following the date of expiration of such Lease Period (the “**Rent Payment Date**”).

The Company shall repay the lease costs of RMB3 million, RMB5 million and RMB20 million, respectively, on the Rent Payment Date of the 3rd to 5th Lease Periods, in addition to the lease interest for the period; the rent for the 6th to 12th Lease Periods are calculated on the basis of equal principal and interest method, and the Company shall pay the corresponding rent on the Rent Payment Date of each Lease Period.

Finance Lease Agreement

Supplemental Agreement

Lease payments: The lease payments are calculated based on the lease cost (i.e. RMB400 million) and the lease interest rate, and consist of the lease cost and the lease interest.

No change.

Lease interest rate: The lease interest rate is a tax-inclusive floating rate. The standard is the loan prime rate (LPR) for loans with a maturity of five years or more as published by the People's Bank of China. The lease interest rate on the lease commencement date shall be the loan prime rate (LPR) for loans with a maturity of five years or more as published by the People's Bank of China on 22 November 2021, i.e. 4.65% per annum; in case of adjustment to the loan prime rate (LPR) for loans with relevant maturity as published by the People's Bank of China, Industrial Bank Financial Leasing shall re-determine the lease interest rate based on the new loan prime rate (LPR) for loans with relevant maturity as published by the People's Bank of China and adjust the lease payments accordingly.

On the commencement date of the 4th Lease Period, the lease interest rate shall be adjusted to the loan prime rate (LPR) for loans with a maturity of five years or more as published by the People's Bank of China applicable as at 20 May 2023 plus 100 basis points, with the adjusted lease interest rate being 5.30% per annum. Industrial Bank Financial Leasing shall calculate and collect current rent from the Company based on the aforementioned lease interest rate.

During the subsequent Lease Periods, the lease interest rate shall be redetermined once a year on 20 June. The redetermination basis is the latest applicable loan prime rate (LPR) for loans with a maturity of five years or more as published by the People's Bank of China on the redetermination date. The value of plus or minus basis points shall remain unchanged for the duration of the contract. At that time, the rent amount of the Lease Period and each preceding Lease Period as of the date of redetermination of the lease interest rate shall remain unchanged. Commencing from the next Lease Period, Industrial Bank Financial Leasing shall calculate and collect rent from the Company in accordance with the redetermined lease interest rate.

The Company shall pay to Industrial Bank Financial Leasing one installment of lease payment for each Lease Period in ten equal installments of principal and interest. The lease payment applicable to each Lease Period shall be paid on the day following the expiration date of such Lease Period.

	Finance Lease Agreement	Supplemental Agreement
Lease handling fee and payment method:	RMB2 million. The payment shall be made in several instalments and each instalment of lease handling fee shall be 0.5% of each instalment of the purchase price of Leased Assets.	As at the date of this announcement, the Company has paid in full to Industrial Bank Financial Leasing the lease handling fee as agreed in the Finance Lease Agreement in accordance with the relevant provisions of the Finance Lease Agreement and the entering into of the Supplemental Agreement does not involve any additional payment of lease handling fee.
Lease risk deposit:	Nil	Nil
Guarantee:	Nil	The Company pledged all of its equity interests in six wholly-owned subsidiaries and the receivables under service concession rights enjoyed by these six subsidiaries to secure the Company's obligations under the Finance Lease Agreement and the Supplemental Agreement, and shall complete the relevant pledge procedures in accordance with the relevant provisions of the Supplemental Agreement.
Repurchase right and price:	Upon expiry of the lease term, the Company has the right to repurchase the Leased Assets on an "as is" basis upon payment of the repurchase price to Industrial Bank Financial Leasing and obtain the title of the Leased Assets, provided that the Company shall settle all the lease payments and other amounts payable under the Finance Lease Agreement. The amount of the repurchase price is RMB10,000.	No change.

II. FINANCIAL IMPACT

The consideration for the Finance Lease Arrangement, considered as a whole, is effectively the principal amount of the finance lease granted to the Company by Industrial Bank Financial Leasing. Under the International Financial Reporting Standards issued by the International Accounting Standards Board, the transactions contemplated under the Finance Lease Agreement shall be recognized as financial liability arrangement and therefore will not give rise to any gain or loss on or result in a decrease in the value of the Leased Assets at initial recognition. In respect of the Finance Lease Arrangement, the carrying value of the Leased Assets as at 31 October 2021 was approximately RMB431.04 million. As at 31 May 2023, the carrying value of the Leased Assets as confirmed by the management account of the Company was approximately RMB327.46 million.

Pursuant to the Finance Lease Arrangement, (i) the Group's total assets increased by approximately RMB400 million to reflect the proceeds from the disposal of the Leased Assets; and (ii) the Group's total liabilities increased by approximately RMB400 million to reflect the Group's payment obligations under the Finance Lease Agreement. Accordingly, there will be no material change to the total assets less total liabilities in the consolidated statement of financial position of the Group. The relevant assets and liabilities have been reflected in the interim and annual reports of 2021 and 2022 of the Company. Upon the entering into of the Supplemental Agreement, the Group is expected to increase the amount of each of lease liabilities – unrecognised financing fee and lease liabilities – lease payment by approximately RMB22.60 million in accordance with the relevant provisions of the Supplemental Agreement. Therefore, the entering into of the Supplemental Agreement has no material change to the total assets less total liabilities in the consolidated statement of financial position of the Group.

Regarding the impact on the consolidated statement of profit or loss and other comprehensive income, the total estimated interest and financing fee calculated based on the floating interest rate as stipulated in the Finance Lease Agreement is approximately RMB50.94 million (including lease interest of approximately RMB48.94 million and handling fee of RMB2 million), which will be accounted for in finance costs and amortised over the lease term. The total interest calculated under the Supplemental Agreement amounted to approximately RMB71.54 million, and the difference between it and the estimated interest calculated under the Finance Lease Agreement amounted to approximately RMB22.60 million. The relevant difference will also be included in finance costs and amortised over the remaining lease term.

III. REASONS FOR AND BENEFITS OF ENTERING INTO THE FINANCE LEASE ARRANGEMENT

The Finance Lease Arrangement was entered into in the ordinary and usual course of business of the Company for the purpose of enabling the Company to obtain financial resources for its operations and to continue to use certain assets required for its operations. Pursuant to the Finance Lease Arrangement, the Company generated proceeds of approximately RMB400 million (as reflected in the Company's relevant periodic reports for the years of 2021 and 2022), which was used by the Group to replace bank loans in areas such as the operation of wastewater treatment facilities. The Supplemental Agreement is an amendment to the terms of the finance lease term, rental interest rate and other terms to extend the lease term and the arrangement for the principal payment of the lease to increase the Company's flexibility in the use of funds. The Directors consider that the terms of the Finance Lease Arrangement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IV. INFORMATION ON THE PARTIES TO THE FINANCE LEASE AGREEMENT AND SUPPLEMENTAL AGREEMENT

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.

Industrial Bank Financial Leasing

Industrial Bank Financial Leasing is a company incorporated in the PRC with limited liability and is principally engaged in finance lease business. To the best knowledge of the Company, as at the date of this announcement, Industrial Bank Financial Leasing is 100% owned by The Industrial Bank Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 601166). To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Industrial Bank Financial Leasing and its ultimate beneficial owners (where applicable) are third parties independent of the Company and its connected persons.

V. LISTING RULES IMPLICATIONS

Pursuant to Rule 14.36 of the Listing Rules, as the Supplemental Agreement constitutes a material change to the terms of the Finance Lease Agreement and as one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Supplemental Agreement and the transactions contemplated thereunder exceed 25% but are less than 100%, the entering into of the Supplemental Agreement and the transactions contemplated thereunder constitute a major transaction of the Company and are therefore subject to compliance with the notice, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

According to Rule 14.44 of the Listing Rules, Shareholders' approval may be obtained in the form of written Shareholders' approval in lieu of convening a general meeting. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder has a material interest in the transactions contemplated under the Supplemental Agreement. Accordingly, no Shareholder is required to abstain from voting if a general meeting is required to be convened to approve the entering into of the Supplemental Agreement and the transactions contemplated thereunder.

As at the date of this announcement, Kunming Dianchi Investment directly holds 660,266,893 shares of the Company (representing approximately 64.16% of the total number of issued shares of the Company). As the Company has obtained the written approval from Kunming Dianchi Investment, according to Rule 14.44 of the Listing Rules, the Company will not convene an extraordinary general meeting for the purpose of approving the entering into of the Supplemental Agreement and the transactions contemplated thereunder.

According to Rule 14.41(a) of the Listing Rules, a circular containing, among other things, details of the Supplemental Agreement and other information required to be disclosed under the Listing Rules is required to be despatched to the Shareholders within 15 business days after the date of this announcement (i.e. on or before 12 July 2023). As additional time is required to prepare the financial and other information to be included in the circular, the Company may not be able to despatch the circular within such period, in which case the Company will apply to the Stock Exchange for a waiver from strict compliance with Rule 14.41(a) of the Listing Rules and will make a further announcement in relation to the expected despatch date of the circular in due course.

VI. DEFINITIONS

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

“Board”	the board of Directors
“Company”	Kunming Dianchi Water Treatment Co., Ltd. (昆明滇池水務股份有限公司), a joint stock company established 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
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Finance Lease Agreement”	the Finance Lease Agreement dated 24 December 2021 entered into between the Company and Industrial Bank Financial Leasing
“Finance Lease Arrangement”	the arrangements under the terms of the Finance Lease Agreement and the Supplemental Agreement

“Group”	the Company and its subsidiaries
“Industrial Bank Financial Leasing”	Industrial Bank Financial Leasing Co., Ltd. (興業金融租賃有限責任公司), a company incorporated in the PRC with limited liability and a third party independent of the Company and its connected persons
“Kunming Dianchi Investment”	Kunming Dianchi Investment Co., Ltd. (昆明滇池投資有限責任公司), a company established in Yunnan Province, the PRC with limited liability on 13 October 2004, which is the controlling shareholder of the Company
“Leased Assets”	certain assets of wastewater treatment and other equipment and facilities in which the Company has sole ownership and disposal rights as specified under the Finance Lease Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Supplemental Agreement”	the Supplemental Agreement dated 20 June 2023 entered into between the Company and Industrial Bank Financial Leasing in relation to the Finance Lease Agreement
“%”	per cent.

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

Kunming, the PRC, 20 June 2023

As of the date of this announcement, the Board comprises Mr. Zeng Feng and Mr. Chen Changyong, as executive Directors; Mr. Zhou Jianbo and Mr. Zhang Yang, as non-executive Directors; and Ms. Wang Dongfang, Ms. Zheng Dongyu and Mr. Ong King Keung, as independent non-executive Directors.