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If you are in any doubt as to any aspect of this circular or as to the action to be taken, 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 Kunming Dianchi Water Treatment Co., Ltd., you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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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**

A letter from the Board of the Company is set out on pages 3 to 12 of this circular.

The transaction being the subject matter of this circular has been approved by written Shareholders' approval pursuant to the Listing Rules and this circular is being despatched to the Shareholders for information only.

25 August 2023

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DEFINITIONS

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

“Board”	the board of Directors of the Company
“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
“Latest Practicable Date”	21 August 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“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

DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“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.

LETTER FROM THE BOARD



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)

Board of Directors:

Executive Directors:

Mr. Zeng Feng (*Chairperson*)

Mr. Chen Changyong (*General Manager*)

Non-executive Directors:

Mr. Xu Jingdong

Mr. Zhou Jianbo

Mr. Zhang Yang

Independent non-executive Directors:

Ms. Wang Dongfang

Ms. Zheng Dongyu

Mr. Ong King Keung

*Registered office and headquarters
in the PRC:*

Wastewater Treatment Plant No. 7

Kunming Dianchi Tourist Resort

Yunnan Province

the PRC

Principal place of business in Hong Kong:

Room 1901, 19/F, Lee Garden One

33 Hysan Avenue

Causeway Bay, Hong Kong

25 August 2023

To the Shareholders

Dear Sirs and Madams,

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

1. INTRODUCTION

References are made to the announcement of the Company dated 24 December 2021 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.

On 20 June 2023, the Company entered into the Supplemental Agreement with Industrial Bank Financial Leasing 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.

LETTER FROM THE BOARD

The principal terms of the Finance Lease Agreement and its Supplemental Agreement are set out below.

The purpose of this circular is to provide you with (i) the details of the Finance Lease Agreement, the Supplemental Agreement and the Finance Lease Arrangement; and (ii) other information required to be disclosed under the Listing Rules.

2. FINANCE LEASE AGREEMENT AND ITS SUPPLEMENTAL AGREEMENT

	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.
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 Latest Practicable Date, 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.

LETTER FROM THE BOARD

Finance Lease 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.

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.

Supplemental Agreement

LETTER FROM THE BOARD

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.

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.

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.

No change.

LETTER FROM THE BOARD

Finance Lease Agreement

Supplemental Agreement

**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.

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.

**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.

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.

As at the Latest Practicable Date, 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.

LETTER FROM THE BOARD

	Finance Lease Agreement	Supplemental Agreement
Lease risk deposit:	Nil	Nil
Guarantee:	Nil	The Company pledged all of its equity interests in six wholly-owned subsidiaries <i>Note 1</i> and the receivables under service concession rights enjoyed by these six subsidiaries <i>Note 2</i> 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.

LETTER FROM THE BOARD

Finance Lease Agreement

Supplemental Agreement

**Early
Repayment
and Early
Repayment
Penalty:**

Should the Company requests for early repayment of part or all of the rents, the Company shall notify Industrial Bank Financial Leasing in writing 15 business days in advance, which is subject to Industrial Bank Financial Leasing's written consent. After obtaining Industrial Bank Financial Leasing's written consent and the early repayment of part of the rents, the Company shall negotiate with Industrial Bank Financial Leasing to determine the arrangements for repayment of the remaining rents.

In addition to the agreement in the Finance Lease Agreement, if the Company fails to pay any rent by the due date or to set up the pledge guarantee in accordance with the Supplemental Agreement, Industrial Bank Financial Leasing has the right to unilaterally terminate the Supplemental Agreement, restore the original payment arrangement and make claims pursuant to the Finance Lease Agreement.

Lease interest would be charged on the lease cost that has been repaid early based on the agreed interest rate and the actual period of use, while the lease interest that has already been charged prior to the early repayment shall not be adjusted.

The penalty for early repayment is 3% of the early repayment amount.

Note 1:

The six wholly-owned subsidiaries are: (1) Hongze Dianchi Water Treatment Co., Ltd. (洪澤滇池水務有限公司), a limited liability company established in the PRC on 6 March 2006; (2) Putian Huake Environmental Protection Engineering Co., Ltd. (莆田市華科環保工程有限公司), a limited liability company established in the PRC on 15 July 2009; (3) Renhuai Water Treatment Co., Ltd. (仁懷滇池水務有限公司), a limited liability company established in the PRC on 5 January 2011; (4) Leshan Debei'ao Water Treatment Co., Ltd. (樂山德貝奧水務有限公司), a limited liability company established in the PRC on 11 August 2014; (5) Xundian Dianchi Water Co. Ltd (尋甸滇池水務有限公司), a limited liability company established in the PRC on 30 April 2009; and (6) Zhuji Dianchi Water Treatment Co., Ltd. (諸暨滇池水務有限公司), a limited liability company established in the PRC on 30 November 2015. All of these six subsidiaries are principally engaged in wastewater treatment.

Note 2:

As at 30 June 2023, the total amount of receivables under service concession rights enjoyed by these six subsidiaries is approximately RMB490 million.

LETTER FROM THE BOARD

3. 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.

Reference is made to the provision of entrusted loans by the Company to various external borrowers in recent years. The provision of entrusted loans is a short-term idle funds management arrangement (i.e. each for a term of 12 months or shorter) while the Finance Lease Arrangement is a mid-to-long term financing arrangement (i.e. initially for a period of 60 months and now extended to 71 months), both of which serve specific purposes and are beneficial to the Company and the Shareholders. On one hand, the provision of entrusted loans allows the Company to capture interest income without having to tie up its capital for an exceedingly long period, to maximize the potential gain from its capital and to minimize any costs of idle capital. Moreover, there are potential business cooperation opportunities between the Company and most of the borrowers of the entrusted loans, and therefore the provision of entrusted loans to such borrowers is also a catalyst for revenue-generating business cooperation opportunities. On the other hand, the Finance Lease Arrangement allows the Company to continue using certain assets required for its operations that are subject to such arrangement while generating proceeds that could be used more flexibly by the Company.

In view of the above, the Directors consider that the entering into of the Supplemental Agreement and 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.

4. 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.

LETTER FROM THE BOARD

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.

5. 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 Latest Practicable Date, 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.

LETTER FROM THE BOARD

6. 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 Latest Practicable Date, 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.

7. RECOMMENDATIONS

The Directors (including the independent non-executive Directors) consider that the terms of the Finance Lease Agreement and the Supplemental Agreement and the transactions contemplated thereunder are entered into on an arm's length basis and on normal commercial terms, are fair and reasonable and in the best interests of the Group and the Shareholders as a whole. Accordingly, if a general meeting is convened to approve the entering into of the Supplemental Agreement and the transactions contemplated thereunder, the Board will recommend the Shareholders to vote in favour of the resolution to approve the entering into of the Supplemental Agreement and the transactions contemplated thereunder at the relevant general meeting.

8. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

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

1. FINANCIAL INFORMATION OF THE GROUP

Details of the audited consolidated financial information of the Group for each of the three years ended 31 December 2020, 2021 and 2022 are disclosed in the following annual reports of the Company for the years ended 31 December 2020, 2021 and 2022 respectively, which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kmdcwt.com) and are available for inspection:

- (i) The Group's annual report for the year ended 31 December 2020 published on 13 April 2021 (available at <https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0413/2021041300254.pdf>), particularly as shown in pages 167 to 311.
- (ii) The Group's annual report for the year ended 31 December 2021 published on 8 April 2022 (available at <https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0408/2022040800345.pdf>), particularly as shown in pages 176 to 318.
- (iii) The Group's annual report for the year ended 31 December 2022 published on 24 April 2023 (available at <https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0424/2023042400933.pdf>), particularly as shown in pages 160 to 310.

2. INDEBTEDNESS OF THE GROUP

As at the close of business on 30 June 2023, being the latest practicable date for ascertaining the indebtedness of the Group prior to the printing of this circular, the Group mainly had (i) unsecured current borrowings of approximately RMB1,966 million, unsecured non-current borrowings of approximately RMB463 million; (ii) secured current borrowings of approximately RMB1,991 million, secured non-current borrowings of approximately RMB1,384 million, all of which were secured by charges over mainly the Group's revenue from sewage treatment, together with the property, plant and equipment with carrying value of approximately RMB813 million; (iii) financial liability of approximately RMB995 million, which was secured by charges over bill deposits of approximately RMB167 million (as a guarantee amount for the bill payables of the financial liability); and (iv) capital expenditure contracted for but not yet transpired in respect of property, plant and equipment of approximately RMB50 million and commitment for concession projects and construction projects contracted for but not yet transpired of approximately RMB1,730 million.

Save as disclosed above and apart from intra-group liabilities and normal trade payables in the ordinary course of business, at the close of business on 30 June 2023, the Group did not have any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans of other borrowings, indebtedness in the nature of borrowings, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities.

3. WORKING CAPITAL OF THE GROUP

The Directors believe that, after taking into account the existing cash and bank balances, other internal resources and available existing unutilised credit facilities, the Group has sufficient working capital for its present requirements and to satisfy its requirements for at least the next 12 months from the date of publication of this circular in the absence of unforeseen circumstances.

Pursuant to Rule 14.66(12) of the Listing Rules, the Company has received a letter of confirmation from the auditors regarding the statement on the adequacy of the Group's working capital.

4. FINANCIAL AND TRADING PROSPECT OF THE GROUP

The Group 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. The Company's main businesses are wastewater treatment and supply of reclaimed water and running water, with its industrial chain extending from urban wastewater treatment to treatment of industrial wastewater and wastewater in towns and villages, running water supply, use of reclaimed water, sludge resource utilization, disposal of garbage and solid waste, water purification chemicals and water conservation.

For wastewater treatment business, as of 31 December 2022, the Group had a total of 40 wastewater treatment plants in operation (including 14 in the main city of Kunming and 26 in other areas of China), with a total wastewater treatment capacity of 2.03 million cubic meters per day. With our technologically advanced facilities, independently developed patents and strong management skills, we have been able to maintain low costs while providing high-quality wastewater treatment services. In the future, the Group will continue to maintain its advantages and strengthen and improve its wastewater treatment projects.

For reclaimed water supply business, as of 31 December 2022, we had 12 wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 237,000 cubic meters. Benefiting from the Company's technological foundation, we are able to produce and supply different high-quality reclaimed water based on the different needs of our customers and increase economic benefits. In recent years, with the increase in market demand and as the government attaches great importance to the use of reclaimed water, the amount of reclaimed water used has been increasing year by year.

For running water supply business, as of 31 December 2022, we had 7 running water plants in operation in the PRC. The Company's running water supply business has also been growing steadily in recent years.

In the future, the Company will continue to cultivate its main wastewater treatment business, actively explore solid waste treatment and disposal, continue to develop new strategic businesses such as comprehensive use of high-quality reclaimed water and continue to build up its professional system service capability in the water industry. We will focus on stabilising operations, improving performance, grasping projects, expanding financing, promoting reform, strengthening the team, consolidating inventories, increasing the volume, and coordinating sustainable development of the Company.

5. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022, being the date of preparation of the latest published audited consolidated financial statements of the Group.

6. EFFECT OF FINANCE LEASE ARRANGEMENT ON THE GROUP'S EARNINGS, ASSETS AND LIABILITIES

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.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes 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) Interests and Short Positions of Directors, Supervisors and Chief Executives of the Company in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations**

As at the Latest Practicable Date, none of the Directors, supervisors or senior management of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules.

(b) Interests of the Substantial Shareholders in the Shares and Underlying Shares of the Company

As at the Latest Practicable Date, so far as is known to any Director of the Company, the interests and short positions of the following persons (other than Directors, chief executives or supervisors of the Company) who had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were entered in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Name of Shareholder	Capacity/nature of interest	Class of Shares	Number of Shares held	Approximate percentage of issued share capital of the Company as at the Latest Practicable Date
Kunming Dianchi Investment (昆明滇池投資)	Beneficial owner	Domestic Shares	627,253,548 <i>(Note 2)</i>	60.95%
Kunming Public Rental Housing Development and Construction Management Co., Ltd. (昆明市公共租賃住房開發建設管理有限公司)	Security interest	Domestic Shares	33,013,345 <i>(Note 3)</i>	3.21%
Kunming Industrial Development & Investment Co., Ltd. (昆明產業開發投資有限責任公司)	Beneficial owner	H Shares	59,000,000 <i>(Notes 4 and 6)</i>	5.73%
Kunming Industrial Development and Construction Company Limited (昆明市產業開發建設有限責任公司)	Interest of controlled corporation	H Shares	59,000,000 <i>(Notes 4 and 6)</i>	5.73%
Kunming State-owned Assets Management and Operations Co. Ltd. (昆明市國有資產管理營運有限責任公司)	Beneficial owner	H Shares	39,790,000	3.87%
Yunnan Provincial Investment Holdings Group Co., Ltd. (雲南省投資控股集團有限公司)	Beneficial owner	H Shares	64,770,000	6.29%
Modern Orient Limited	Interest of controlled corporation	H Shares	47,754,000 <i>(Notes 5 and 6)</i>	4.64%
Beijing Enterprises Water Group Limited	Beneficial owner	H Shares	47,754,000 <i>(Notes 5 and 6)</i>	4.64%
Beijing Enterprises Investments Limited	Interest of controlled corporation	H Shares	47,754,000 <i>(Notes 5 and 6)</i>	4.64%
Beijing Enterprises Holdings Limited	Interest of controlled corporation	H Shares	47,754,000 <i>(Notes 5 and 6)</i>	4.64%
Beijing Enterprises Group Company Limited	Interest of controlled corporation	H Shares	47,754,000 <i>(Notes 5 and 6)</i>	4.64%
Beijing Enterprises Group (BVI) Company Limited	Interest of controlled corporation	H Shares	47,754,000 <i>(Notes 5 and 6)</i>	4.64%
Beijing Enterprises Environmental Construction Limited	Interest of controlled corporation	H Shares	47,754,000 <i>(Notes 5 and 6)</i>	4.64%

Notes:

1. The data disclosed above are mainly based on information provided on the website of Hong Kong Stock Exchange (<https://www.hkexnews.hk>) and records of the register required to be kept by the Company under Section 336 of the SFO.
2. Pursuant to the counter-guarantee contract signed by Kunming Dianchi Investment on 29 June 2022, Kunming Dianchi Investment pledged 33,013,345 shares of the Company held by it as security for its debts. As at the Latest Practicable Date, a total of 660,266,893 shares of the Company were held by Kunming Dianchi Investment, accounting for approximately 64.16% of the total issued shares of the Company.
3. Pursuant to the counter-guarantee contract signed between Kunming Public Rental Housing Development and Construction Management Co., Ltd. and Kunming Dianchi Investment on 29 June 2022, Kunming Public Rental Housing Development and Construction Management Co., Ltd. has a security interest in the 33,013,345 shares held by Kunming Dianchi Investment.
4. Such 59,000,000 shares belong to the same batch of shares.
5. Such 47,754,000 shares belong to the same batch of shares.
6. Pursuant to Section 336 of the SFO, if certain conditions are fulfilled, the Shareholders are required to submit a form for disclosure of interests. In the event of changes in the shareholding of the Shareholders in the Company, the Shareholders will not be required to notify the Company and the Stock Exchange unless certain conditions are met. Therefore, the latest shareholding of the Shareholders in the Company may be different from the shareholding submitted to the Stock Exchange.

Save as disclosed above, as at the Latest Practicable Date, the Company is not aware of any other persons (other than the Directors, supervisors and chief executives of the Company) who have interest or short positions in the Shares or Underlying Shares of the Company which are required to be recorded in the register under Section 336 of the SFO.

3. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

As at the Latest Practicable Date, none of the Directors or Supervisors had entered into or proposed to enter into any service contract with any member of the Group which is not expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

4. COMPETING INTERESTS OF DIRECTORS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors and their respective close associates had any interest in any business (other than the Group's business) which competes or is likely to compete, either directly or indirectly, with the business of the Group (as would be required to be disclosed pursuant to Rule 8.10 of the Listing Rules if they were controlling Shareholders).

5. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS OF THE GROUP

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2022 (being the date to which the latest published audited consolidated financial statements of the Group 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.

None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant to the businesses of the Group.

6. DIRECTORS' AND SUPERVISORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

The followings are the particulars of Directors' and Supervisors' employment with substantial Shareholders (holding interests or short positions in the shares and underlying shares of the Company required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO) as at the Latest Practicable Date:

Mr. Zeng Feng, an executive Director of the Company, serves as a director of Kunming Dianchi Investment.

Mr. Xu Jingdong, a non-executive Director of the Company, serves as a director and the deputy general manager of Kunming Dianchi Investment.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) had been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

- (a) On 24 September 2021 and 28 February 2022, the Company entered into entrusted loan contracts with Kunming Xindu Investment Co., Ltd. (昆明新都投資有限公司) and the relevant entrusted financial institution, pursuant to which the Company entrusted Kunming Panlong Sub-branch of Bank of China Limited (中國銀行股份有限公司昆明市盤龍支行) and Kunming Chenggong District Rural Credit Cooperative* (昆明市呈貢區農村信用合作聯社), respectively, to provide entrusted loans of RMB350 million and RMB250 million, respectively, to Kunming Xindu Investment Co., Ltd., with a term of 154 days and 1 month, respectively, and an interest rate of 7.5% per annum and 8.5% per annum, respectively; on 28 March 2022, the Company entered into an extension agreement with Kunming Xindu Investment Co., Ltd. and Kunming Chenggong District Rural Credit Cooperative* (昆明市呈貢區農村信用合作聯社) for the entrusted loan contract dated 28 February 2022 to extend the term of the entrusted loan under the entrusted loan contract dated 28 February 2022 to 28 July 2022 and adjust the interest rate to 9.0% per annum, and the Company entered into a security contract, with Kunming Xindu Investment Co., Ltd. pursuant to which Kunming Xindu Investment Co., Ltd. agreed to provide mortgaged asset as security for the extension agreement (please refer to the Company's announcements disclosed on the websites of the Stock Exchange and the Company on 24 September 2021, 28 February 2022 and 28 March 2022 for details);

- (b) On 29 September 2021, the Company (as the asset entrustor) entered into the Mutual Trust No. 5 Asset Management Agreement with Bosera Capital Management Co., Ltd. (as the asset manager) and Kunming Branch of China Merchants Bank Company Limited (as the asset trustee), pursuant to which the Company entrusted an amount of RMB300 million to invest in the credits of accounts receivable held by Kunming Agricultural Development Investment Co., Ltd. and in bank deposits and cash, with a term of 3 months and an investment return of approximately 8% per annum; on 31 December 2021, the Company entered into a supplemental agreement with Bosera Capital Management Co., Ltd. and Kunming Branch of China Merchants Bank Company Limited extending the term of the Mutual Trust No. 5 Asset Management Agreement to 10 April 2022 (please refer to the Company's announcements disclosed on the websites of the Stock Exchange and the Company on 29 September 2021 and 31 December 2021 for details);
- (c) On 29 September 2021, the Company and Kunming Dianchi Investment entered into the entrusted operation and management framework agreement, pursuant to which the Group will continue to provide operation and management services to Kunming Dianchi Investment and its subsidiaries (excluding the Group) for three years until 31 December 2024, including operation and management services for wastewater treatment facilities, reclaimed water supply facilities, and running water supply facilities. The annual caps (after tax) for the three years of 2022, 2023 and 2024 are RMB421,063,000, RMB574,539,000 and RMB593,140,000, respectively (please refer to the Company's announcement and circular disclosed on the websites of the Stock Exchange and the Company on 29 September 2021 and 26 October 2021, respectively, for details);
- (d) On 11 October 2021 and 24 October 2022, the Company entered into entrusted loan contracts with Kunming Development and Investment Group Co., Ltd. (昆明發展投資集團有限公司) and the relevant entrusted financial institution, pursuant to which the Company entrusted Kunming Guandu Branch of Bank of China Limited and Kunming Chenggong District Rural Credit Cooperative* (昆明市呈貢區農村信用合作聯社), respectively, to provide entrusted loans of RMB100 million and RMB200 million, respectively, to Kunming Development and Investment Group Co., Ltd., with a term from 12 October 2021 to 1 December 2021 and from 24 October 2022 to 24 September 2023, respectively, and an interest rate of 7.5% per annum and 8.5% per annum, respectively (please refer to the Company's announcements disclosed on the websites of the Stock Exchange and the Company on 11 October 2021 and 24 October 2022 for details);
- (e) On 24 December 2021, the Company entered into the finance lease agreement with Industrial Bank Financial Leasing, 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. On 20 June 2023, the parties entered into the supplemental agreement for the finance lease agreement to adjust and supplement the lease term, interest rate and rental payment arrangement etc. (please refer to the Company's announcements and circular disclosed on the websites of the Stock Exchange and the Company on 24 December 2021, 24 February 2022 and 20 June 2023 for details);

- (f) On 24 March 2022, the Company and CCB Financial Leasing Corporation Limited (建信金融租賃有限公司) entered into two transfer agreements and two lease agreements. Under the transfer agreement I and the lease agreement I, CCB Financial Leasing Corporation Limited agreed to (i) purchase the leased assets from the Company for a transfer price not exceeding RMB100 million; and (ii) lease back the leased assets to the Company for a term of four years. Under the transfer agreement II and the lease agreement II, CCB Financial Leasing Corporation Limited agreed to (i) purchase the leased assets from the Company for a transfer price not exceeding RMB100 million; and (ii) lease back the leased assets to the Company for a term of five years (please refer to the Company's announcement disclosed on the websites of the Stock Exchange and the Company on 24 March 2022 for details);
- (g) On 9 June 2022, the Company entered into the entrusted loan contract with Kunming Urban Construction and Investment Development Co., Ltd. (昆明市城建設投資開發有限責任公司) and Kunming Panlong District Rural Credit Cooperative* (昆明市盤龍區農村信用合作聯社), pursuant to which the Company entrusted Kunming Panlong District Rural Credit Cooperative* (昆明市盤龍區農村信用合作聯社) to provide entrusted loan of RMB310 million to Kunming Urban Construction and Investment Development Co., Ltd. with a term of 12 months and an interest rate of 8.5% per annum. On 9 June 2023, the parties entered into the extension agreement for the entrusted loan contract dated 9 June 2022 to extend the term of RMB180 million of the principal amount thereunder to 8 June 2024 (please refer to the Company's announcements disclosed on the websites of the Stock Exchange and the Company on 9 June 2022 and 9 June 2023 for details);
- (h) On 29 June 2022, the Company, the People's Government of Suncun Town, Fanchang District (繁昌區孫村鎮人民政府) and Fanchang Dianchi Water Treatment Co., Ltd. (繁昌縣滇池水務有限公司) entered into the equity transfer agreement, pursuant to which the Company conditionally agreed to sell and the People's Government of Suncun Town, Fanchang District conditionally agreed to acquire 100% equity interest in Fanchang Dianchi Water Treatment Co., Ltd. for an estimated consideration of not more than RMB163 million (please refer to the Company's announcements disclosed on the websites of the Stock Exchange and the Company on 29 June 2022 and 7 July 2022 for details);
- (i) On 16 June 2023, the Company entered into the entrusted loan contract with Kunming Anju Group Co., Ltd. (昆明市安居集團有限公司) and Jinma Branch of Guandu Rural Cooperative Bank, pursuant to which the Company entrusted Jinma Branch of Guandu Rural Cooperative Bank to provide entrusted loan of RMB80 million to Kunming Anju Group Co., Ltd. with a term of 12 months and an interest rate of 8.5% per annum (please refer to the Company's announcement disclosed on the websites of the Stock Exchange and the Company on 16 June 2023 for details).

8. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, no member of the Group was involved in any litigation or claims of material importance and no litigation or claims of material importance was pending or threatened against any member of the Group.

9. GENERAL

- (a) The Company's registered office and headquarters in the PRC is located at Wastewater Treatment Plant No. 7, Kunming Dianchi Tourist Resort, Yunnan Province, PRC and its principal place of business in Hong Kong is located at Room 1901, 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.
- (b) The Company's H Share Registrar is Tricor Investor Services Limited which is located at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (c) The company secretary of the Company is Mr. Chiu Ming King, FCG, FCS.

10. DOCUMENTS FOR INSPECTION

Copy of the Supplemental Agreement will be published on the websites of the Stock Exchange (<https://www.hkexnews.hk>) and the Company (<https://www.kmdcwt.com>) for a period of 14 days from the date of this circular.

* *For identification purpose only*