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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 People's Republic of China with limited liability)

(Stock Code: 3768)

CONTINUING CONNECTED TRANSACTION SLUDGE TREATMENT AND DISPOSAL AGREEMENT

The Board announces that, on 17 November 2020 (after trading hours), Dianchi Logistics, a wholly owned subsidiary of the Company and Kunming Dianchi Investment entered into the Sludge Treatment and Disposal Agreement pursuant to which Kunming Dianchi Investment shall provide sludge treatment and disposal services to Dianchi Logistics for three years ending 31 December 2022, for some of sludge generated from wastewater treatment plants of the Group in Kunming.

Kunming Dianchi Investment is the controlling shareholder of the Company and holds approximately 64.16% equity interest of the Company as at the date of this announcement, and is therefore a connected person of the Company. Accordingly, provision of services by Dianchi Investment Group to the Group under the Sludge Treatment and Disposal Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratio(s) calculated with reference to Rule 14.07 of the Listing Rules in respect of the Sludge Treatment and Disposal Agreement in aggregate exceed 0.1% but less than 5%, the continuing connected transaction contemplated under the Sludge Treatment and Disposal Agreement is subject to the reporting and announcement requirements but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. THE SLUDGE TREATMENT AND DISPOSAL AGREEMENT

(a) Parties

- (i) Kunming Dianchi Investment; and
- (ii) Dianchi Logistics.

(b) Date and term of the agreement

The Sludge Treatment and Disposal Agreement was entered into on 17 November 2020 (after trading hours) and shall last from 17 November 2020 to 31 December 2022.

(c) **Scope of services**

The service provided by Kunming Dianchi Investment to Dianchi Logistics includes the treatment and disposal of sludge collected by Dianchi Logistics and transported to Kunming Dianchi Investment in respect of some of sludge generated from various wastewater treatment plants facilities of the Group in Kunming. The costs of transporting the sludge shall be borne by Dianchi Logistics.

(d) **Consideration**

The consideration of the services contemplated under the Sludge Treatment and Disposal Agreement is the equivalent of the unit price of sludge treatment and disposal per tonne (“**Unit Price**”) multiplied by the quantity of sludge received by Kunming Dianchi Investment. As at the date of this announcement, the Unit Price is determined with reference to the market price which is at RMB120 per tonne (excluding tax).

The market price is determined with reference to prices charged in contracts entered into by the Group and independent third parties who provide similar services of the sludge treatment and disposal on normal commercial terms to the Group. Dianchi Logistics took reference from such relevant contracts entered into in the past year and took the average of the relevant contractual prices in arriving at the market price.

The Group and Dianchi Logistics envisage that the local government shall be handing down a government-guided price in respect of Unit Price of sludge treatment and disposal. Absence a clear rollout timetable of such government-guided price, the parties under the Sludge Treatment and Disposal Agreement shall adhere to the market price for the time being. Should the government-guided price becomes available, the parties shall enter into a separate agreement in writing to adjust the Unit Price.

(e) **Payment terms**

Pursuant to the terms of the Sludge Treatment and Disposal Agreement, payment shall be made on a quarterly basis whereby Dianchi Logistics shall pay or procure to pay an amount equivalent to the actual amount of sludge received by Kunming Dianchi Investment for the three months in a particular quarter (as confirmed by Dianchi Logistics) multiplied by the Unit Price. Quarterly payment shall be made no later than 10 working days upon receiving payment invoice issued by Kunming Dianchi Investment.

2. ANNUAL CAPS

The Directors of the Company estimated that the annual caps for the transaction contemplated under the Sludge Treatment and Disposal Agreement, which include all costs and expenses payable by the Group in relation to the sludge treatment and disposal for each of the years ending 31 December 2020, 2021 and 2022 to be as follows:

	For the year ending 31 December		
	2020	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)
Service fees expected to be paid by			
Dianchi Logistics to Kunming Dianchi			
Investment	3,300	19,800	19,800

For the purposes of determining the annual caps for the transactions under the Sludge Treatment and Disposal Agreement for each of the years ending 31 December 2020, 2021 and 2022, the Directors have considered (i) the estimated quantity of sludge generated by wastewater treatment plants of the Group in Kunming from 2020 to 2022; and (ii) the Unit Price of sludge treatment and disposal with reference to the discussion above.

3. REASONS FOR AND BENEFITS OF ENTERING INTO THE SLUDGE TREATMENT AND DISPOSAL AGREEMENT

Sludge is an inevitable by-product of wastewater treatment process. The requirements for sludge disposal have become increasingly stringent in the wake of tightened laws and regulations with respect to environmental protection in the PRC. Kunming Dianchi Investment has the largest capacity of sludge anaerobic digestion and dehydration treatment at present in Kunming. The sludge treatment technology is advanced and the treatment process meets the national environmental protection requirements for sludge treatment, which can realize recycling and utilization of sludge resources. The Company believes that by entering into the Sludge Treatment and Disposal Agreement, the Company can expand its sludge treatment and disposal channels. At the same time, it can further prevent and reduce the potential operational risks caused by sludge disposal, and improve the Company's sludge disposal efficiency.

Based on the above, the Directors (including the independent non-executive Directors) are of the view that the Sludge Treatment and Disposal Agreement and the continuing connected transaction thereunder are entered into through arm's length negotiations in the ordinary and usual course of business of the Company and on normal commercial terms, and the terms of the continuing connected transaction under the Sludge Treatment and Disposal Agreement and the annual caps are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

4. INTERNAL CONTROL MEASURES

The Company has implemented or will implement the following internal control measures:

- (1) relevant departments of the Company will review and monitor the total transaction amount under the Sludge Treatment and Disposal Agreement to ensure that each aggregate annual transaction amount will not exceed the relevant annual cap of the continuing connected transaction under the Sludge Treatment and Disposal Agreement;
- (2) pursuant to the requirements of Chapter 14A of the Listing Rules, the independent non-executive Directors will conduct annual independent review on the above control measures to ensure that the transaction was entered into through arm's length negotiations and on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of the transactions; and
- (3) pursuant to the requirements of Chapter 14A of the Listing Rules, the auditors of the Company will also conduct an annual review on the pricing basis and the annual cap(s) under the Sludge Treatment and Disposal Agreement. The Company will facilitate the provision of necessary information to its independent non-executive Directors and auditors for the purpose of such review.

5. IMPLICATION UNDER THE LISTING RULES

Kunming Dianchi Investment is the controlling shareholder of the Company and holds approximately 64.16% equity interest of the Company as at the date of this announcement, and is therefore a connected person of the Company. Accordingly, provision of services by the Dianchi Investment Group to the Group under the Sludge Treatment and Disposal Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratio(s) calculated with reference to Rule 14.07 of the Listing Rules in respect of the Sludge Treatment and Disposal Agreement in aggregate exceed 0.1% but less than 5%, the continuing connected transaction contemplated under the Sludge Treatment and Disposal Agreement is subject to the reporting and announcement requirements but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Directors of the Company, Ms. Guo Yumei and Ms. Song Hong, held positions in Kunming Dianchi Investment and they are considered to have a material interest in the continuing connected transaction under the Sludge Treatment and Disposal Agreement. Accordingly, they are required to abstain from voting in the Board resolution approving the continuing connected transaction under the Sludge Treatment and Disposal Agreement. Save as disclosed above, as no other Directors have a material interest in the continuing connected transaction under the Sludge Treatment and Disposal Agreement, no other Directors are required to abstain from voting in relation to the relevant Board resolution.

6. INFORMATION OF THE PARTIES

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 Dianchi Investment

Kunming Dianchi Investment is a state-owned enterprise established on 13 October 2004 and wholly owned by 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). As at the date of this announcement, Kunming Dianchi Investment holds 64.16% of the issued share capital of the Company. It engages in investment, construction, operation and management of projects confirmed by the Kunming Municipal People's Government in Yunnan Province of the PRC; investment and construction of wastewater treatment plants and investment, operation and management of assets in relation to infrastructure, technology and other industries.

Dianchi Logistics

Dianchi Logistics is a wholly owned subsidiary of the Company established on 15 June 2005 that is principally engaged in transportation of sludge generated from the wastewater treatment plants operated by the Group.

7. DEFINITIONS

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

“Board of Directors” or “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
“continuing connected transaction”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Dianchi Investment Group”	Kunming Dianchi Investment and its subsidiaries, excluding the Group
“Dianchi Logistics”	Kunming Dianchi Logistics Co., Ltd.* (昆明滇池物流有限責任公司), a Company established in Yunnan Province, the PRC with limited liability on 15 June 2005, which is a wholly owned subsidiary of the Company
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is listed on the Main Board of the Stock Exchange and traded in Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented and otherwise modified from time to time

“PRC” or “China”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	shareholder(s) of the Company
“Sludge Treatment and Disposal Agreement”	the sludge treatment and disposal agreement entered into by Dianchi Logistics and Kunming Dianchi Investment on 17 November 2020
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules

By order of the Board
Kunming Dianchi Water Treatment Co., Ltd.
Guo Yumei
Chairperson

Kunming, the PRC, 17 November 2020

As of the date of this announcement, the Board comprises Ms. Guo Yumei, 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, Mr. He Xifeng and Mr. Johnson Wan, as independent non-executive Director.

* *For identification only.*