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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)

CONTINUING CONNECTED TRANSACTION UNDER THE NEW FRAMEWORK AGREEMENT

Reference is made to the announcement dated 30 April 2019 in relation to, among other things, the entering into of the Previous Framework Agreement. As the Previous Framework Agreement with Kunming Dianchi Investment shall expire on 31 December 2021, the Company has entered into the New Framework Agreement whereby the annual caps are also renewed under the New Framework Agreement.

The Board announces that, on 29 September 2021 (after trading hours), the Company and Kunming Dianchi Investment have entered into the New Framework Agreement through friendly negotiation, pursuant to which the Group will continue to provide operation and management services to Dianchi Investment 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.

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 operation and management services by the Group to Dianchi Investment Group under the New Framework Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to the Listing Rules, as one or more percentage ratios applicable to the relevant annual caps of the above continuing connected transaction are higher than 5%, the continuing connected transaction contemplated under the New Framework Agreement is subject to reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company has appointed Rainbow Capital as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the continuing connected transaction under the New Framework Agreement and the relevant proposed annual caps.

The Company will convene a general meeting to seek approval from the Independent Shareholders on the continuing connected transaction under the New Framework Agreement and the relevant proposed annual caps. The Company will dispatch a circular to the shareholders of the Company within 15 business days after the publication of this announcement in accordance with the Listing Rules including, among other things, (i) details of the proposed continuing connected transaction under the New Framework Agreement; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; and (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

1. BACKGROUND

The Company entered into the Previous Framework Agreement with Kunming Dianchi Investment on 30 April 2019, pursuant to which the Group provided certain operation and management services to Dianchi Investment Group in relation to wastewater treatment plants, reclaimed water supply facilities and running water facilities owned by Dianchi Investment Group for a period from 21 June 2019 to 31 December 2021. Such operation and management service, depending on the development stage of the project, typically includes operating, testing and adjusting the equipment and facilities, arranging operating personnel and experts to maintain the daily operation of such plants and ensure the effluent quality meets the relevant discharge standard, setting up management policies and operation guidelines, chemicals purchase, and sludge transportation and disposal.

As at the date of this announcement, the Group and Kunming Dianchi Investment's subordinate water purification plants have entered into certain individual agreements. These individual agreements are in line with various agreed principles within the Previous Framework Agreement.

As the Previous Framework Agreement shall expire on 31 December 2021, the Company and Kunming Dianchi Investment entered into the New Framework Agreement through friendly negotiation, pursuant to which the Group will continue to provide operation and management services to Dianchi Investment Group for three years until 31 December 2024.

2. NEW FRAMEWORK AGREEMENT

(a) Parties

- (i) Kunming Dianchi Investment; and
- (ii) the Company.

(b) Date of signature, effective date and term of the agreement

The New Framework Agreement was entered into on 29 September 2021 (after trading hours) with both parties' signatures and seals. It will take effect on 1 January 2022 subject to approval by the Company's general meeting. The term of the agreement is from 1 January 2022 to 31 December 2024.

The term of the individual agreements entered into by the Group and Dianchi Investment Group under the New Framework Agreement shall not exceed the term of the New Framework Agreement.

(c) Principal terms

Scope of the operation and management services

The operation and management services provided by the Group to Dianchi Investment Group include operation and management services for wastewater treatment facilities, reclaimed water supply facilities, and running water supply facilities.

Principles of transaction

- (i) The parties agree that entering into the New Framework Agreement does not preclude the parties (or their respective subsidiaries) from freely choosing counterparties or entering into transactions with third parties;
- (ii) Kunming Dianchi Investment agrees that Dianchi Investment Group shall give priority to the operation and management services provided by the Group when the service terms offered and fees quoted by third parties are the same;
- (iii) Dianchi Investment Group has the right to obtain services from third parties if the Group cannot meet the requirements of Dianchi Investment Group for the operation and management services or if the terms provided by third parties are more favorable;
- (iv) The Company will provide an annual estimate of the operation and management services fees required for the next year to Kunming Dianchi Investment; and
- (v) Subject to the principles of the New Framework Agreement, it is expected that the Group will enter into individual agreements with Dianchi Investment Group from time to time as required. The Group reserves the right to amend these individual agreements in order to comply with the Listing Rules.

Operation and management fees

Each party will agree on relevant management fees for the entrusted operation according to the types of individual operation and management services, which will be reflected in individual agreements (please refer to the relevant terms under “Operation mode” below).

The price of the operation and management services under the New Framework Agreement shall be determined according to the standard prices promulgated by the relevant government authorities for such services.

Operation mode

For all service transactions under the New Framework Agreement, parties to the transactions will enter into individual agreements in accordance with the scope and principles specified in the New Framework Agreement. Such individual agreements shall not violate the agreed provisions under the New Framework Agreement.

The parties shall ensure and procure their respective subsidiaries to enter into individual agreements in accordance with the principles and provisions of the New Framework Agreement and the service plans agreed by both parties. Kunming Dianchi Investment is committed to using its best endeavor to procure its associates other than its subsidiaries to enter into individual agreements in accordance with the principles and provisions of the New Framework Agreement and the service plans agreed by both parties.

During the process of implementing the New Framework Agreement, if necessary and as agreed by both parties of the agreement, the individual agreements may be adjusted.

Obligation of the parties

The main obligations of Dianchi Investment Group and the Group under the New Framework Agreement include:

(i) Dianchi Investment Group

- a. to coordinate matters relating to the implementation of each individual agreement;
- b. to designate or establish a special department for liaison, file preparation, planning and arrangement, supervision, assessment and coordination of the implementation of the agreements in relation to the relevant transactions under the New Framework Agreement, and dispute resolutions; and
- c. to pay relevant service fees in accordance with the requirements under the individual agreements and to guarantee compensation for the losses caused to the Group due to violation of the New Framework Agreement or any terms of the individual agreements.

(ii) The Group

- a. to provide and procure its member companies to provide corresponding services to Dianchi Investment Group in accordance with the New Framework Agreement and to coordinate matters in relation to various individual agreements;
- b. to regularly submit data and information on relevant work status according to the requirements of Dianchi Investment Group, as well as promptly and effectively organize, resolve and rectify problems in the maintenance and operation of the entrusted subjects, and accept supervision, assessment and relevant evaluation of Dianchi Investment Group and third parties assigned by it;
- c. to compensate for the losses caused to Dianchi Investment Group due to violation of any terms of the individual agreements under the New Framework Agreement in accordance with the requirements of the individual agreements; and
- d. to ensure safe and stable operation of the entrusted subjects and bear environmental protection responsibility caused due to improper operation and management by the Group.

3. HISTORICAL DATA AND ANNUAL CAPS

The annual cap of operation and management services provided by the Group to Dianchi Investment Group for the years ended 31 December 2019, 2020 and the year ending 31 December 2021:

	For the year ended 31 December		For the year ending 31 December
	2019	2020	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Annual Cap	123,170	193,440	252,800

The historical transaction data of the operation and management services provided by the Group to Dianchi Investment Group for the years ended 31 December 2019, 2020 and for the eight months ended 31 August 2021:

	For the year ended 31 December		For the eight months ended 31 August 2021
	2019	2020	31 August 2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Actual transaction amount	98,937	129,719	136,305

The Directors have estimated that the annual caps for the transactions under the New Framework Agreement, which include all costs and expenses payable by the Group in relation to the operation and management of the various wastewater treatment plants, and the service fees the Group may charge pursuant to the New Framework Agreement, for each of the years ending 31 December 2022, 2023 and 2024 would be as follows:

	For the year ending 31 December		
	2022	2023	2024
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Service fees and reimbursable costs (after tax) to be paid by Kunming Dianchi Investment to the Company	421,063	574,539	593,140

For the purposes of determining the proposed annual caps for the transactions under the New Framework Agreement for each of the years ending 31 December 2022, 2023 and 2024, the Directors have considered (i) historical transaction amounts and existing costs of operation and management services, (ii) estimated volume of services from 2022 to 2024 (including existing volume of services and estimated increase in volume of services), (iii) estimated increase in costs of services from 2022 to 2024 and (iv) the standard prices promulgated by the relevant government authorities for such services.

4. INTERNAL CONTROL MEASURES

To ensure that the proposed annual caps will not be exceeded and the individual transactions will be conducted in accordance to the New Framework Agreement, the Group has adopted the below internal control measures:

- (a) the Company has formulated the Connected Transactions Management Policies (《關聯交易管理辦法》) (the “Policies”), to ensure that all connected transactions, including those under the New Framework Agreement, are properly controlled and monitored. In particular, the Policies require that continuing connected transactions are subject to annual review by auditors and independent board committee of the Company;
- (b) the Finance Department of the Company will review proposed transaction price before an individual transaction and the terms under a draft individual agreement, to ensure that they are in line with the standard prices promulgated by the relevant government authorities. The Finance Department will then report their review result to the chairperson of the Company and the chairperson will consider and approve the signing of such individual agreement;
- (c) each year, the Finance Department of the Company will prepare an annual plan and annual estimate of the operation and management services fees required for the next year, which is subject to review and approval by the Board;
- (d) the Finance Department of the Company will prepare accounts of all individual transactions occurred on a monthly and quarterly basis, and such accounts will be submitted to the Securities Department of the Company and further reported to the president of the Company on a monthly basis and to the president of the Company and the Board on a quarterly basis; and
- (e) the Finance Department and Business Department of the Company will monitor the implementation of each individual agreement on a continuous basis, and report to Securities Department of the Company for any deviation or possible deviation from the relevant individual agreement or the New Framework Agreement. The Securities Department of the Company will further report any serious deviation to the president and the Board.

5. REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW FRAMEWORK AGREEMENT

Dianchi Investment Group reserves certain wastewater treatment plants. According to the concession agreement between the Company and the Kunming Municipal Government, the Company has the exclusive right to operate wastewater treatment facilities in Kunming. Therefore, Dianchi Investment Group shall rely on or entrust the Company to operate and manage the wastewater treatment facilities in Kunming.

The Company considers that through collection of service fees from Kunming Dianchi Investment and taking advantage of the Company's resources and expertise, provision of operation and management services enables the Company to operate wastewater treatment facilities, thereby obtaining maximum benefits from such water plants.

In addition, the Company entered into the Non-competition Agreement with Kunming Dianchi Investment to regulate the relationship and potential business competition between the Group and Dianchi Investment Group upon the Listing. Pursuant to the Non-competition Agreement, for those wastewater treatment plants the Company is entrusted to operate, the Company has (i) the right to request Kunming Dianchi Investment to sell; (ii) the right to acquire at their respective commencement of commercial operation; and (iii) the right of first offer to acquire any or all of them. Entering into the New Framework Agreement will enable the Group to continue to operate and control these assets and track the situation and performance of the wastewater treatment plants. It will also enable the Company to better assess whether and when to exercise its right to acquire such assets in accordance with the Non-competition Agreement.

Based on the above, the Directors (excluding the independent non-executive Directors) are of the view that the New Framework Agreement and the continuing connected transaction thereunder are entered into 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 New Framework Agreement and the proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and its shareholders as a whole.

6. 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 operation and management services by the Group to Dianchi Investment Group under the New Framework Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to the Listing Rules, as one or more percentage ratios applicable to the relevant annual caps of the above continuing connected transaction are higher than 5%, the continuing connected transaction contemplated under the New Framework Agreement is subject to reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Director, Ms. Song Hong, serves in Kunming Dianchi Investment and, therefore, she is considered to have a material interest in the continuing connected transaction under the New Framework Agreement. Accordingly, she is required to abstain from voting in the Board resolution approving the continuing connected transaction under the New Framework Agreement. Save as disclosed above, as no other Directors have a material interest in the continuing connected transaction under the New Framework Agreement, no other Directors are required to abstain from voting in relation to the relevant Board resolution.

The Company has appointed Rainbow Capital as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the continuing connected transaction under the New Framework Agreement and the relevant proposed annual caps.

The Company will convene a general meeting to seek approval from the Independent Shareholders on the continuing connected transaction under the New Framework Agreement and the relevant proposed annual caps. The Company will dispatch a circular to the shareholders of the Company within 15 business days after the publication of this announcement in accordance with the Listing Rules including, among other things, (i) details of the New Framework Agreement and the proposed continuing connected transaction thereunder; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; and (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

7. 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 Dianchi Investment

Kunming Dianchi Investment is a state-owned enterprise established on 13 October 2004 and owned as to 90% 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.

8. DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“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
“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
“Independent Board Committee”	an independent Board committee of the Company comprising all of the independent non-executive Directors (i.e. Mr. Yin Xiaobing, Ms. Zheng Dongyu and Mr. Johnson Wan) to advise the Independent Shareholders on the continuing connected transaction under the New Framework Agreement and the relevant proposed annual caps
“Independent Financial Adviser” or “Rainbow Capital”	Rainbow Capital (HK) Limited, a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, which was appointed as the Independent Financial Adviser by the Company to advise the Independent Board Committee and the Independent Shareholders on the continuing connected transaction under the New Framework Agreement and the relevant proposed annual caps
“Independent Shareholders”	the shareholders of the Company, except for Kunming Dianchi Investment and its associates
“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”	Listing of the H shares of the Company on the Stock Exchange on 6 April 2017
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented and otherwise modified from time to time
“New Framework Agreement”	the entrusted operation and management framework agreement entered into by the Company and Kunming Dianchi Investment on 29 September 2021 (after trading hours)
“Non-completion Agreement”	the non-competition agreement entered into between the Company and Kunming Dianchi Investment dated 25 April 2016

“operation and management services”	the operation and management services provided by the Group to Dianchi Investment Group, including operation and management services for wastewater treatment facilities, reclaimed water supply facilities, and running water supply facilities
“PRC” or “China”	the People’s Republic of China
“Previous Framework Agreement”	the entrusted operation and management framework agreement entered into by the Company and Kunming Dianchi Investment on 30 April 2019
“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
“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.
Zeng Feng
Chairperson

Kunming, the PRC, 29 September 2021

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. Johnson Wan, as independent non-executive Directors.