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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 and the proxy form 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)

2021 SECOND EXTRAORDINARY GENERAL MEETING AND CONTINUING CONNECTED TRANSACTION UNDER THE NEW FRAMEWORK AGREEMENT

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



RAINBOW CAPITAL (HK) LIMITED
溢博資本有限公司

The Extraordinary General Meeting will be held on Friday, 12 November 2021 at 2:30 p.m. at the meeting room of the Company on the 1st floor at Wastewater Treatment Plant No. 7, Kunming Dianchi Tourist Resort, Yunnan Province, the PRC. The notice of the EGM is set out on pages 40 to 42 of this circular.

If you intend to appoint a proxy to attend the EGM you are required to complete and return the proxy form in accordance with the instructions printed thereon. For holders of H Shares, the proxy form should be returned to Tricor Investor Services Limited and for holders of Domestic Shares, the proxy form should be returned to the Company's registered office and headquarters in the PRC by personal delivery or by post not less than 24 hours before the time fixed for holding the EGM (i.e., before 2:30 p.m. on Thursday, 11 November 2021) or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or at any other adjourned meeting should you so wish.

27 October 2021

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DEFINITIONS

In this circular, 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
“Director(s)”	director(s) of the Company
“Domestic Shares”	ordinary shares in the Company’s capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB
“EGM” or “Extraordinary General Meeting”	the 2021 second extraordinary general meeting of the Company to be held at 2:30 p.m. on Friday, 12 November 2021 at the meeting room of the Company on the 1st floor at Wastewater Treatment Plant No. 7, Kunming Dianchi Tourist Resort, Yunnan Province, the PRC
“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
“HKD” or “HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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

DEFINITIONS

“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 other than 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
“Latest Practicable Date”	22 October 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing”	the 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. For details, please refer to the announcement of the Company dated 30 April 2019
“Prospectus”	the prospectus issued by the Company on 24 March 2017 for the purpose of Listing

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
“Share(s)”	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, comprising the Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary(ies)”	has the meaning ascribed to it in the Listing Rules
“Supervisor(s)”	supervisors of the Company

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*)
Mr. Luo Yun

Registered office and headquarters in the PRC:

Wastewater Treatment Plant No. 7
Kunming Dianchi Tourist Resort
Yunnan Province
the PRC

Non-executive Directors:

Ms. Song Hong
Ms. Ren Na
Ms. Yu Yanbo

Principal place of business in Hong Kong:

Room 1901, 19/F, Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

Independent non-executive Directors:

Mr. Yin Xiaobing
Ms. Zheng Dongyu
Mr. Johnson Wan

27 October 2021

To the Shareholders

Dear Sirs and Madams,

2021 SECOND EXTRAORDINARY GENERAL MEETING AND CONTINUING CONNECTED TRANSACTION UNDER THE NEW FRAMEWORK AGREEMENT

1. INTRODUCTION

On behalf of the Board of Directors, I invite you to attend the EGM to be held at 2:30 p.m. on Friday, 12 November 2021 at the meeting room of the Company on the 1st floor at Wastewater Treatment Plant No. 7, Kunming Dianchi Tourist Resort, Yunnan Province, the PRC.

The purpose of this circular is to provide you with the information reasonably necessary to enable you to make an informed decision on whether to vote for or against the proposed resolutions at the EGM.

LETTER FROM THE BOARD

2. BUSINESSES TO BE CONSIDERED AT THE EGM

The businesses to be considered at the EGM are described in more details in the notice of the EGM immediately following this letter, which is set out on pages 40 to 42 of this circular.

Resolutions will be proposed at the EGM and passed as ordinary resolutions, which include:

- (a) 2021 interim profit distribution plan
- (b) Appointment of Mr. Ong King Keung as independent non-executive Director

Meanwhile, a resolution will be proposed by the Independent Shareholders at the EGM and passed as an ordinary resolution, which includes:

- (c) to approve the New Framework Agreement and the continuing connected transaction (including the proposed annual caps) thereunder:
 - (i) to approve, ratify and confirm the New Framework Agreement and the continuing connected transaction thereunder (including the corresponding proposed annual caps); and
 - (ii) to authorize any executive Director to sign, execute, perfect and deliver all such documents (including the New Framework Agreement) and do all such measures, acts, matters and things as he or she may in his or her sole and absolute discretion consider necessary or desirable for the purpose of the implementation of each transaction under the New Framework Agreement, the proposed annual caps and other matters contemplated thereunder or ancillary thereto, to waive compliance from and/or agree to any amendment or supplement to the New Framework Agreement which in his or her opinion is not of a material nature and to effect or implement any other matters referred to in this resolution.

In order to enable you to have a better understanding of the resolutions to be proposed at the EGM and to make an informed decision in the circumstance where sufficient and necessary information is available, we have provided detailed information in this circular.

3. BUSINESSES OF THE EGM

3.1 2021 interim profit distribution plan

The Board recommends the distribution of an interim dividend (the “**2021 Interim Dividend**”) of RMB0.05 per share (tax inclusive) for the six months ended 30 June 2021 to all Shareholders, totaling RMB51,455,550.00 (tax inclusive). In respect of distribution of the 2021 Interim Dividend, the dividend for holders of Domestic Shares of the Company shall be declared and paid in RMB while the dividend for holders of H Shares of the Company shall be declared in RMB and paid in Hong Kong dollars. The actual amount of dividend distributed in Hong Kong dollars for H Shares shall be calculated using the average exchange rate published by the People’s Bank of China within one week prior to the date of the EGM. Upon consideration for and passing of the 2021 Interim Dividend at the EGM, the 2021 Interim Dividend shall be distributed in cash on Wednesday, 29 December 2021 to all Shareholders whose names appear on the register of members of the Company on Tuesday, 23 November 2021.

LETTER FROM THE BOARD

The cheques for the 2021 Interim Dividend will be despatched by post to the Shareholders who are entitled to the interim dividend at their own risk.

For the purpose of determining the list of shareholders who are entitled to the 2021 Interim Dividend, the Share register of members of the Company will be closed from Thursday, 18 November 2021 to Tuesday, 23 November 2021 (both days inclusive). In order to be qualified for the 2021 Interim Dividend (subject to approval of Shareholders), the holders of unregistered H Shares are required to submit the transfer documents to the Company's H Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 17 November 2021. It is proposed to Shareholders at the EGM to authorise the Board and its authorized persons to implement the above dividend distribution plan and proposed for the Board to delegate its authority to the Company's management for implementing all relevant matters relating to the above profit distribution plan at the time when it obtains the above authority. Pursuant to the Enterprise Income Tax Law of the PRC and its implementation rules, which came into force on 1 January 2008 and other relevant rules, where the Company distributes the proposed 2021 interim dividend to non-resident enterprise Shareholders whose names appear on the register of members for H Shares of the Company, it is required to withhold and pay enterprise income tax at the rate of 10%. Any H Shares registered in the name of non-individual registered Shareholders, including HKSCC Nominees Limited, other nominees or trustees, or other organisations or groups, will be treated as shares being held by non-resident enterprise Shareholders, and consequently will be subject to the withholding of the enterprise income tax.

According to the requirements of the State Administration of Taxation (Guo Shui Han [2011] No. 348) and the relevant laws and regulations, if the individual holders of H Shares are residents of Hong Kong or Macau or those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of these Shareholders. If the individual holders of H Shares are residents of those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of less than 10%, the Company will assist them to make applications to seek entitlement of the relevant agreed preferential treatments pursuant to the relevant tax treaty. If the individual holders of H Shares are residents of those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the actual tax rate stipulated in the relevant tax treaty. If the individual holders of H Shares are residents of those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of 20%, or those countries which have not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of these Shareholders. The Company will determine the resident status of the individual holders of H Shares based on the registered address as recorded in the register of members of the Company on Tuesday, 23 November 2021 (the "**Registered Address**"). If the resident status of any individual holders of H Shares is not consistent with that indicated by the Registered Address, such individual holders of H Shares shall notify the Company's H Share Registrar not later than 4:30 p.m. on Wednesday, 17 November 2021, and provide relevant supporting documents to the Company's H Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Any individual holders of H Shares who fail to provide relevant supporting documents within the time period stated above, may either personally or appoint an agent to attend to the relevant procedures in accordance with the requirements under the tax treaty notice.

The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the individual holders of H Shares and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the individual holders of H Shares or any disputes over the withholding mechanism or arrangements.

LETTER FROM THE BOARD

3.2 Appointment of independent non-executive Director

Reference is made to the announcement of the Company dated 28 September 2021 in relation to the resignation tendered by Mr. Johnson Wan, an independent non-executive Director, to the Board resigning from his positions as independent non-executive Director, chairman of the remuneration and appraisal committee and member of the audit committee and nomination committee of the Company, and the proposed appointment of Mr. Ong King Keung (“**Mr. Ong**”) as an independent non-executive Director. On 28 September 2021, the Board considered and approved the proposed appointment of Mr. Ong as an independent non-executive Director and submitted such proposed appointment to the EGM for approval.

Biographical details of Mr. Ong are as follows:

Mr. Ong, aged 45, obtained a bachelor degree in accountancy from the Hong Kong Polytechnic University and a master degree in corporate finance from the City University of Hong Kong. He is a member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has over 15 years of experience in auditing and accounting industry. Mr. Ong is currently the company secretary of Harbour Digital Asset Capital Limited (formerly known as Unity Investments Holdings Limited, a company listed on the Main Board of the Stock Exchange, stock code: 913).

Mr. Ong is an independent non-executive director of Risecomm Group Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1679). Mr. Ong is also an independent non-executive director of Bingo Group Holdings Limited (a company listed on GEM of the Stock Exchange, stock code: 8220), and K Group Holdings Limited (a company listed on GEM of the Stock Exchange, stock code: 8475).

Mr. Ong was an independent non-executive director of China Water Affairs Group Limited (a company listed on the Main Board of the Stock Exchange, stock code: 855) for the period from March 2007 to November 2019 and Tech Pro Technology Development Limited (a company listed on the Main Board of the Stock Exchange, stock code: 3823, but de-listed with effect from 2 March 2020) for the period from March 2017 to February 2019, respectively.

Mr. Ong had also been an independent non-executive director of Deson Construction International Holdings Limited (now known as Smart City Development Holdings Limited, a company listed on GEM of the Stock Exchange, stock code: 8268) since December 2014 and was subsequently re-designated as a non-executive director since December 2015. In July 2019, Mr. Ong resigned as a non-executive director of the company; and was an independent non-executive director of My Heart Bodibra Group Limited (now known as Ocean Star Technology Group Limited, a company listed on GEM of the Stock Exchange, stock code: 8297) for the period from December 2017 to May 2021.

The appointment of Mr. Ong as an independent non-executive Director will become effective after the resolution of his appointment is approved by the Shareholders at the EGM. Then, the Company will enter into a director service agreement with Mr. Ong for a term commencing from the day when the above resolution is considered and approved at the EGM till the day when the election of the next session of the Board is completed. Mr. Ong’s remuneration for serving as independent non-executive Director of the first session of the Board will be RMB220,000 per year (before tax).

LETTER FROM THE BOARD

To the best knowledge of the Directors, save as disclosed above: (1) Mr. Ong did not hold any directorship in public companies whose securities are listed in Hong Kong or any overseas securities markets in the past three years; (2) Mr. Ong is not connected to any Director, Supervisor, senior management, substantial shareholder or controlling shareholder of the Company; and (3) before Mr. Ong's appointment as independent non-executive Director of the Company comes into effect, he does not hold any other positions in the Company or any other member companies of the Group to which the Company belongs; and (4) as at the Latest Practicable Date, Mr. Ong does not have any interests in the shares of the Company or its associated corporations (as defined in Part XV of the SFO). Save as disclosed above, there is no other information that needs to be disclosed pursuant to paragraphs (h) to (v) of Rule 13.51(2) of the Listing Rules, nor are there any other matters in relation to Mr. Ong that need to be brought to the attention of the Shareholders.

3.3 The New Framework Agreement and the Continuing Connected Transaction thereunder

3.3.1 Overview

References are made to the Prospectus and the announcement published by the Company on 29 September 2021 in relation to the continuing connected transaction in which the Group provided operation and management services to Dianchi Investment Group. As disclosed in the announcement dated 30 April 2019, 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 30 April 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 further disclosed in the announcement of the Company dated 30 April 2019, the Company has obtained approval for annual caps of the transaction under the Previous Framework Agreement covering a period of three years until 31 December 2021. As at the Latest Practicable Date, 14 individual agreements are still effective between the Group and Dianchi Investment Group. These individual agreements are in line with various agreed principles within the Previous Framework Agreement.

3.3.2 New Framework Agreement

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

LETTER FROM THE BOARD

(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.
- (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 as required from time to time. The Group reserves the right to amend these individual agreements in order to comply with the Listing Rules.

LETTER FROM THE BOARD

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. The standard prices apply to all the wastewater treatment plants in the main city of Kunming including plants operated by the Company and those operated by the other companies, indicating that it is the market’s practice to follow the standard prices promulgated by the local government.

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

3.3.3 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 under the individual agreements for the years ended 31 December 2019 and 2020 respectively 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	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Actual transaction amount	98,937	129,719	136,305 ^(Note)

Note: The Directors confirm that the actual transaction amount of the operation and management services provided by the Group to Dianchi Investment Group under the individual agreements for the year ending 31 December 2021 will not exceed the annual cap.

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

LETTER FROM THE BOARD

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 the following factors:

- (A) the historical transaction amounts and existing costs of operation and management services;
- (B) the expected increase in service volume for the three years ending 31 December 2024. Our operation and management services mainly include three types of projects, namely the first-class A standard project, the over-limit phosphorus removal project and the DF water quality improvement project. The estimated daily processing capacity are determined with reference to the (a) latest operation status and operation plan of each facility. Some facilities are undergoing upgrading projects which allow them to increase the processing amount. Some facilities are under construction and would start operation in the next few years; and (b) the designed daily processing capacity of each facility. It is expected that our production capacity for each of these projects will increase in the three years ending 31 December 2024;

	2021	2022	2023	2024
	(tons/day)	(tons/day)	(tons/day)	(tons/day)
First-class A standard project	212,235	367,546	451,929	466,888
Over-limit phosphorus removal project	786,411	1,343,651	1,964,902	2,029,450
DF water quality improvement project	7,569	8,055	20,000	20,000

- (C) the standard prices promulgated by the relevant government authorities. The Directors do not foresee any changes to the standard prices promulgated by the relevant government authorities for the next three years.

3.3.4 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;

LETTER FROM THE BOARD

- (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.

3.3.5 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.

LETTER FROM THE BOARD

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 the Shareholders as a whole.

3.3.6 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 Latest Practicable Date, and is therefore a connected person of the Company. Accordingly, provision of entrusted 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.

3.3.7 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.

LETTER FROM THE BOARD

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 Latest Practicable Date, 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.

4. THE EGM

The proxy form of the EGM is also enclosed to the circular.

If you intend to appoint a proxy to attend the EGM, you are required to complete and return the form of proxy in accordance with the instructions printed thereon. For holders of H Shares, the form of proxy should be returned to Tricor Investor Services Limited and for holders of Domestic Shares, the form of proxy should be returned to the Company's registered office and headquarters in the PRC by personal delivery or by post not less than 24 hours before the time fixed for holding the EGM (i.e. before 2:30 p.m. on Thursday, 11 November 2021) or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or at any other adjourned meeting should you so wish.

5. VOTING BY POLL

According to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Accordingly, the Chairman of the EGM will exercise his power under the Articles of Association to demand a poll in relation to all the proposed resolutions at the EGM.

In view of Kunming Dianchi Investment's interests in the continuing connected transaction under the New Framework Agreement, Kunming Dianchi Investment (holding approximately 64.16% of the Company's equity interest) and its associates are required to abstain and shall abstain from voting on the ordinary resolution to be proposed at the EGM to approve the continuing connected transaction under the New Framework Agreement.

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save as disclosed above, no connected person of the Company, the Shareholder or their respective associates with a material interest in the resolution to be proposed at EGM is required to abstain from voting at the EGM.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently transferred control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis. Accordingly, to the best knowledge, information and belief of the Directors, there exists no discrepancy between any Shareholder's beneficial Shareholding interest in the Company and the number of Shares in the Company in respect of which such Shareholder will control or will be entitled to exercise control over the voting right at the EGM.

6. RECOMMENDATIONS

The Board considers that the resolutions proposed at the EGM are in the interests of the Company and its Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of those proposed resolutions at the EGM.

The Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in respect of the continuing connected transaction under the New Framework Agreement. Rainbow Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in such respect.

The Directors (excluding the independent non-executive Directors) are of the view that the New Framework Agreement and the continuing connected transactions 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 the Shareholders as a whole. Therefore, the Directors (excluding the independent non-executive Directors) recommend the Independent Shareholders to vote in favor of the resolution on the continuing connected transaction under the New Framework Agreement to be proposed at the EGM.

The Independent Board Committee, having taking into account of the terms of the New Framework Agreement and the advice of the Independent Financial Adviser, considers that the New Framework Agreement and the continuing connected transactions 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 the Shareholders as a whole. Therefore, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the resolution to be proposed at the EGM to approve the continuing connected transaction under the New Framework Agreement.

LETTER FROM THE BOARD

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 19 of this circular containing the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the continuing connected transaction under the New Framework Agreement; and (ii) the letter from the Independent Financial Adviser set out on pages 20 to 35 of this circular containing the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders as well as the principal factors and reasons considered in respect of the continuing connected transaction under the New Framework Agreement.

Yours faithfully,
Zeng Feng
Chairperson

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

27 October 2021

To the Independent Shareholders:

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTION UNDER THE NEW FRAMEWORK AGREEMENT

We refer to the circular dated 27 October 2021 (the “**Circular**”) to the Shareholders by the Company, of which this letter forms part. Unless specified otherwise, capitalized terms used in this letter shall have the same meaning as those defined in the Circular.

In accordance with the requirements under the Listing Rules, we have been appointed to consider and advise the Independent Shareholders as to whether the New framework agreement and the continuing connected transactions thereunder (including the proposed annual caps) are entered into in the ordinary and usual course of business of the Company, are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. For such purpose, Rainbow Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Details of the continuing connected transaction under the New Framework Agreement and the reasons for transactions are contained in the letter from the Board set out on pages 4 to 18 in the Circular.

We have also discussed with the management of the Company regarding the terms of the New framework agreement and the basis upon which the proposed annual caps of the transactions during the term of the New Framework Agreement are determined. Having considered (i) the terms of the New Framework Agreement, (ii) the discussions with the management of the Company about the background to and nature of the New Framework Agreement and (iii) the advice of Rainbow Capital to Independent Board Committee and the Independent Shareholders, we consider that the New Framework Agreement and the continuing connected transactions thereunder (including the proposed annual caps) are entered into in the ordinary and usual course of business of the Company, on normal commercial terms, and the agreement terms 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 the Shareholders as a whole.

We therefore recommend the Independent Shareholders to vote in favor of the ordinary resolution to be proposed at the EGM to approve the continuing connected transaction under the New Framework Agreement.

Yours faithfully,
**Independent Board Committee of
Kunming Dianchi Water Treatment Co., Ltd.**
Yin Xiaobing
Zheng Dongyu
Johnson Wan
Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from Rainbow Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions, which has been prepared for the purpose of inclusion in this circular.

Rainbow Capital (HK) Limited

27 October 2021

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

CONTINUING CONNECTED TRANSACTION UNDER THE NEW FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the New Framework Agreement and the continuing connected transactions thereunder (the “**Transactions**”), details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) of the circular to the Shareholders dated 27 October 2021 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in this Circular.

On 29 September 2021, 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 Latest Practicable Date, 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. 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. Yin Xiaobing, Ms. Zheng Dongyu and Mr. Johnson Wan, has been formed to advise the Independent Shareholders as to whether (i) the New Framework Agreement and the Transactions are entered into in the ordinary and usual course of business of the Group and on normal commercial terms; and (ii) the terms of the New Framework Agreement and the proposed annual caps (the “**Proposed Caps**”) are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group and Kunming Dianchi Investment that could reasonably be regarded as relevant to our independence. In the last two years, there was no engagement between the Group and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Group or any other party to the New Framework Agreement. Accordingly, we are qualified to give independent advice in respect of the New Framework Agreement and the Transactions contemplated thereunder (including the relevant Proposed Caps).

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in this Circular; (ii) the information supplied by the Group; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in this Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in this Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in this Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in this Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of this Circular.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in this Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, Kunming Dianchi Investment or their respective substantial shareholders, subsidiaries or associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation, we have taken into account the following principal factors and reasons:

1. Information on the Group

The Group is principally engaged in the development, design, construction, operation and maintenance of water supply and wastewater treatment facilities in the PRC. The Group mainly provides the following services:

- (i) Wastewater treatment, which includes design, construction and/or operation of wastewater treatment facilities under concession arrangements;
- (ii) Water supply, which includes reclaimed water supply and running water supply;
- (iii) Others services, which mainly involve management services, transportation services, thermal production and treasury functions.

As disclosed in the annual report of the Company for the year ended 31 December 2020 (the “2020 Annual Report”), revenue from wastewater treatment business, water supply business and other businesses accounted for approximately 66%, 14% and 20% of the total revenue.

2. Information on the 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. As at the Latest Practicable Date, 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 as well as investment and construction of wastewater treatment plants and investment, operation and management of assets in relation to infrastructure, technology and other industries.

3. Background of and reasons for the New Framework Agreement

As stated in the Letter from the Board, 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 (“**Exclusive Operation Right**”). Therefore, Dianchi Investment Group shall rely on or entrust the Company to operate and manage the wastewater treatment facilities in Kunming.

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 ending 31 December 2024.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the Directors, the operation and management services provided to Dianchi Investment Group are wastewater treatment services for the wastewater processing plants/facilities owned by Kunming Dianchi Investment, which mainly include three types of projects, namely the first-class A standard project (“**Project A**”), the over-limit phosphorus removal project (“**Project PR**”) and the DF water quality improvement project (“**Project DF**”) (collectively, the “**Projects**”).

Project A uses several wastewater processing technologies to purify the wastewater to reach first class A standard, the quality standard as defined in the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant of the PRC.

Project PR is a wastewater treatment process to further purify the processed water of Project A to reach TP (Total Phosphorus) level at less than 0.05mg/L.

Project DF is a new wastewater treatment process to purify the processed water of Project A in order to further improve the water quality so that the main quality indicators could reach standard II as defined in the Environmental Quality Standards For Surface Water of the PRC.

By providing the wastewater treatment services to the Projects, the Company could earn service fees from Kunming Dianchi Investment. As stated in the 2020 Annual Report, the transaction amount under the Previous Framework Agreement was approximately RMB129.72 million, accounting for approximately 6.8% of the total revenue.

Other than the Exclusive Operation Right, the Company is also entitled to acquisition right (the “**Acquisition Right**”) pursuant to the Non-competition Agreement with Kunming Dianchi Investment. As stated in the Letter from the Board, 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.

As such, the Directors consider that 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 enable the Company to not only generate revenue from the Projects, but also better assess whether and when to exercise the Acquisition Right.

Based on the above, we concur with the Directors that the New Framework Agreement and the Transactions are entered into in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Principal terms of the New Framework Agreement

Details of the terms of the New Framework Agreement are set out in the Letter from the Board, which are summarized as follows:

Date	:	29 September 2021
Parties	:	Kunming Dianchi Investment; and the Company
Effective date and term of the agreement	:	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.

Service scope	:	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.
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Principles of transaction	:	The parties agree that entering into the New Framework Agreement does not affect the parties' (or their respective subsidiaries) independent choice of transaction objects or transactions with third parties;
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Kunming Dianchi Investment agrees that Dianchi Investment Group shall give priority to the Group's entrusted operation and management services when the service terms offered and fees quoted by third parties are the same;

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;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Company will provide an annual estimate of the operation and management services fees required for the next year to Kunming Dianchi Investment; and

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 (“Agreed Price”) :

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;

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (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.

We have reviewed and compared the principal terms of the New Framework Agreement with those of the Previous Framework Agreement, and noted that save for the determination method of the Agreed Price under operation and management fees, there is no material difference in comparison with the Previous Framework Agreement. The Agreed Price under the Previous Framework Agreement refers to market price or the price determined according to “reasonable costs + reasonable profit (no more than 10%)”, while the Agreed Price under the New Framework Agreement refers to the price determined according to the standard prices promulgated by the relevant government authorities for such services. We have also reviewed an official notice in relation to the standard prices promulgated by the local government dated 10 June 2021 and noted that the standard prices are apply to all the wastewater treatment plants in the main city of Kunming including plants operated by the Company and those operated by the other companies, indicating that it is the market’s practice to follow the standard prices promulgated by the local government.

As discussed with the management of the Company, the Company is responsible for the operation and management of most of the wastewater treatment plants in the main city of Kunming, which are either entrusted by the Kunming Dianchi Investment (“**Dianchi Projects**”) or the local government directly (“**Government Projects**”). The terms and conditions of Dianchi Projects would be regulated by the New Framework Agreement, while those of Government Projects are regulated by a franchise agreement (the “**Franchise Agreement**”) entered into between the Company and the local government.

Given all the wastewater treatment plants of the Group are either Dianchi Projects or Government Projects, we have obtained the Franchise Agreement and compared the terms of Franchise Agreement and those of New Framework Agreement. We noted that (i) services fee under the Franchise Agreement is also decided by the local government; and (ii) other terms of the New Framework Agreement are generally no less favorable to the Group than those of the Franchise Agreement.

After taking into account (i) save for pricing term, there is no material difference between the terms of the New Framework Agreement and the terms of the Previous Framework Agreement, meaning that the terms of the New Framework Agreement are reflecting the business practice between the Group and the Dianchi Investment Group in the past; (ii) the Agreed Price are determined with reference to the standard price promulgated by the relevant government authorities which are also apply to other plants operated by other companies, indicating that it is the market’s practice to follow the standard prices promulgated by the local government; and (iii), the terms of New Framework Agreement are generally no less favorable to the Group than those of the Franchise Agreement entered into with local government directly, we are of the view that the terms of New Framework Agreement are on normal commercial terms which are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Letter from the Board, the finance department of the Company will review proposed transaction prices before entering into individual transactions, to ensure that the prices are in line with the standard prices promulgated by the relevant government authorities. As such, we are of the view that appropriate internal control procedures are in place.

5. Proposed Caps of the Transactions

Set out below is the Proposed Caps for the Transactions for the three years ending 31 December 2024:

	For the year ending 31 December		
	2022	2023	2024
	(RMB'000)	(RMB'000)	(RMB'000)
Service fees and reimbursable costs (excluding tax) to be paid by Kunming			
Dianchi Investment to the Company	421,063	574,539	593,140
– Project A	194,903	239,650	247,582
– Project PR	222,083	324,765	335,434
– Project DF	4,077	10,124	10,124

As set out in the Letter from the Board, the Proposed Caps were determined by reference to (i) historical transaction amounts, (ii) estimated volume of services from 2022 to 2024 (including existing volume of services and estimated increase in volume of services), (iii) production capacity for each facility and (iv) the standard prices promulgated by the relevant government authorities for such services.

In assessing the fairness and reasonableness of the Proposed Caps above, we have considered (i) the designed and estimated processing volume of each facility under the Projects; (ii) the official notice issued by the local government in Kunming which states the standard prices of Project A and Project PR; and (iii) the signed agreement between the Group and Kunming Dianchi Investment which states the prices of Project DF.

We have obtained and reviewed the projection table (the “**Projection Table**”) for the determination of the Proposed Caps for the three years ending 31 December 2024 prepared by the management of the Company, showing (i) the names of each wastewater treatment plant/facility of the Dianchi Investment Group under the Projects; (ii) the designed and estimated wastewater treatment capacity of each plant/facility of the Dianchi Investment Group; and (iii) the expected price. The Proposed Caps for the three years ending 31 December 2024 under the New Framework Agreement were calculated based on the estimated wastewater treatment volume multiplied by the expected price for each plant/facility.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(i) *Project A*

	For the year ending 31 December		
	2022	2023	2024
Proposed annual caps for Project A (RMB'000) (A)	194,903	239,650	247,582
Estimated wastewater treatment volume (thousand tons) (B)	134,154	164,954	170,414
Expected price per ton (RMB) (excluding tax) (A/B)	1.45	1.45	1.45

As stated in the table above, the proposed annual caps for Project A amount to approximately RMB194.9 million, RMB239.7 million and RMB247.6 million for the year ending 31 December 2022, 2023 and 2024, respectively, which are determined with reference to (a) the estimated wastewater treatment volume of approximately 134.2 million tons, 165.0 million tons and 170.4 million tons for the year ending 31 December 2022, 2023 and 2024, respectively; and (b) the expected price of approximately RMB1.45 per ton (tax excluded).

In respect of the expected price

The expected price of approximately RMB1.45 per ton (tax excluded) is determined with reference to the official notice issued by the local government in Kunming. We have obtained and reviewed such notice and noted that the price of Project A promulgated by the local government is RMB1.54 per ton (tax included) with an effective date of 1 July 2021. Based on a tax rate of 6%, the price promulgated by the local government is RMB1.45 per ton (tax excluded). Given the expected price per ton is consistent with the price promulgated by the local government, we consider such price to be fair and reasonable.

In respect of the processing volume

In reviewing the Projection Table, we noted that the estimated wastewater treatment volumes for the three years ending 31 December 2024 are based on the estimated daily processing capacity of each facility, multiplied by the number of operating days of each facility.

The estimated daily processing capacity are determined with reference to the (a) latest operation status and operation plan of each facility. Some facilities are undergoing upgrading projects which allow them to increase the processing amount. Some facilities are under construction and would start operation in the next few years; and (b) the designed daily processing capacity of each facility. The designed daily processing capacity of each facility are stated in the Pollutant Discharge Permits (排污許可證) or the notice issued by local government. We have reviewed these Pollutant Discharge Permits and the notice and we noted that the estimated daily processing capacity of each facility are all below or equal to the designed daily processing capacity.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The estimated daily processing capacity of all relevant facilities amount to approximately 367,546 tons, 451,929 tons and 466,888 tons for the year ending 31 December 2022, 2023 and 2024, respectively, which account for approximately 65%, 74% and 75% of the total designed daily processing capacity of relevant facilities.

To avoid misunderstanding, the Project A of the Overloaded Facilities (defined as below) are not entrusted by Kunming Dianchi Investment and do not fall into the scope of the New Framework Agreement. Details of which are set out in sub-section headed “(ii) Project PR – In respect of the processing volume” below.

As for the number of operating days, the Directors have taken into account the operation plan of each facility. Most of the facilities would operate throughout the year (i.e. 365 days each year), while for those new facilities which would be put into operation in the following three years, shorter operation periods are reflected in the Projection Table.

Given (a) the estimated daily processing capacity of each facility are all below or equal to the designed daily processing capacity; and (b) the number of operating days has taken into account the operation plan of each facility, we consider the estimated processing volume of Project A to be fair and reasonable.

As such, we are of the view that the proposed annual caps for Project A are fair and reasonable.

(ii) Project PR

	For the year ending 31 December		
	2022	2023	2024
Proposed annual caps for Project PR (RMB'000) (A)	222,083	324,765	335,434
Estimated wastewater treatment volume (thousand tons) (B)	490,433	717,189	740,749
Expected price per ton (RMB) (excluding tax) (A/B)	0.45	0.45	0.45

As stated in the table above, the proposed annual caps for Project PR amount to approximately RMB222.1 million, RMB324.8 million and RMB335.4 million for the year ending 31 December 2022, 2023 and 2024, respectively, which are determined with reference to (a) the estimated wastewater treatment volume of approximately 490.4 million tons, 717.2 million tons and 740.7 million tons for the year ending 31 December 2022, 2023 and 2024, respectively; and (b) the expected price of approximately RMB0.45 per ton (tax excluded).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In respect of the expected price

The expected price of approximately RMB0.45 per ton (tax excluded) is determined with reference to the official notice issued by the local government in Kunming. We have obtained and reviewed such notice and noted that the price of Project PR promulgated by the local government is RMB0.48 per ton (tax included) with an effective date of 1 July 2021. Based on a tax rate of 6%, the price promulgated by the local government is RMB0.45 per ton (tax excluded). Given the expected price per ton is consistent with the price promulgated by the local government, we consider such price to be fair and reasonable.

In respect of the processing volume

In reviewing the Projection Table, we noted that the estimated wastewater treatment volumes for the three years ending 31 December 2024 are based on the estimated daily processing capacity of each facility, multiplied by the number of operating days of each facility.

The estimated daily processing capacity of Project PR have taken into account the latest operation status and operation plan of each facility. More than 10 facilities would start to conduct Project PR in the next few years, which would increase the estimated processing volume significantly as compared to the actual processing volume in the past.

As stated in the section headed “3. Background of and reasons for the New Framework Agreement” above, Project PR is a wastewater treatment process to further purify the processed water of Project A to reach TP (Total Phosphorus) level at less than 0.05mg/L. As such, the daily processing volume of Project PR is related to the daily processing volume of Project A. As discussed with the management of the Company, the estimated daily processing capacity of each facility under Project TR is determined with reference to the daily processing capacity of each facility when it is operating under the Project A, meaning that the facilities would further purify as much water of Project A as possible to make it meet the standard of Project PR. The designed daily processing capacity of each facility when they are operating under the Project A are stated in the Pollutant Discharge Permits or the notice issued by local government. We have obtained these Pollutant Discharge Permits and the notice.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In reviewing the Projection Table, the Pollutant Discharge Permits and the notice issued by local government, we noted that (a) for most of the facilities, the estimated daily processing volume of them under the Project PR is below or equal to the designed daily processing capacity of these facilities when they are operating under the Project A; and (b) for the remaining facilities (the “**Overloaded Facilities**”), the estimated daily processing capacity of them under the Project PR is above the designed daily processing capacity of these facilities when they are operating under the Project A. We have discussed with the management of the Company regarding the Overloaded Facilities and understood that (a) the Overloaded Facilities belong to local government and the local government has directly entrusted us to operate these Overloaded Facilities when they are operating under Project A (i.e. The Government Projects). As such, Project A of these Overloaded Facilities do not fall into the scope of the New Framework Agreement; (b) the Overloaded Facilities were or would be upgraded with the ability to conduct both Project A and Project PR with a view to further purify the wastewater and the Kunming Dianchi Investment is responsible for the Project PR of the Overloaded Facilities based on the arrangement between Kunming Dianchi Investment and local government; and (c) Kunming Dianchi Investment entrusts us to operate the Overloaded Facilities when the Overloaded Facilities are operating under the Project PR, which fall into the scope of the New Framework Agreement.

We also understood that (a) the actual daily processing volume of these Overloaded Facilities under Project A exceeded their respective designed capacity in 2019 and 2020 due to, among others, the strong demand on the wastewater treatment in the main city of Kunming; (b) the estimated total daily capacity of the Overloaded Facilities amount to approximately 1.03 million tons for the three years ending 31 December 2024, which is approximately 12% higher than the total daily designed capacity of the Overloaded Facilities and is generally consistent with the actual daily processing volume (1% deviation for buffer).

We consider that it is more reasonable to determine the estimated daily processing capacity of these Overloaded Facilities under Project PR with reference to the actual daily processing amount under the Project A to reflect the current operation condition.

To sum up, the estimated daily processing capacity of Project PR are determined with reference to (a) the latest operation status and operation plan of each facility; (b) the designed daily processing capacity of Project A stated in the Pollutant Discharge Permits or the notice issued by local government for most facilities; and (c) the actual processing capacity of Project A for the Overloaded Facilities.

As for the number of operating days, the Directors have taken into account the operation plan of each facility. Shorter operation periods are reflected in the Projection Table for those new facilities which would be put into operation in the following three years.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given (a) Project PR is a wastewater treatment process to further purify the processed water of Project A, indicating that the daily processing volume of Project PR is related to the daily processing volume of Project A; (b) estimated daily processing capacity of each facility under the Project PR is determined with reference to either the designed daily processing capacity of facilities when they are operating under the Project A or the actual daily processing amount under the Project A, if they are Overloaded Facilities, and (c) the number of operating days has taken into account the operation plan of each facility, we consider the estimated processing volume of Project PR to be fair and reasonable.

As such, we are of the view that the proposed annual caps for Project PR are fair and reasonable.

(iii) Project DF

	For the year ending 31 December		
	2022	2023	2024
Proposed annual caps for Project DF (RMB'000) (A)	4,077	10,124	10,124
Estimated wastewater treatment volume (thousand tons) (B)	2,940	7,300	7,300
Expected price per ton (RMB) (excluding tax) (A/B)	1.39	1.39	1.39

As stated in the table above, the proposed annual caps for Project DF amount to approximately RMB4.1 million, RMB10.1 million and RMB10.1 million for the year ending 31 December 2022, 2023 and 2024, respectively, which are determined with reference to (a) the estimated wastewater treatment volume of approximately 2.9 million tons, 7.3 million tons and 7.3 million tons for the year ending 31 December 2022, 2023 and 2024, respectively; and (b) the expected price of approximately RMB1.39 per ton (tax excluded).

In respect of the expected price

The agreed price stated in the signed agreement between the Group and Kunming Dianchi Investment is RMB1.47 per ton. Based on a tax rate of 6%, the agreed price (tax excluded) is RMB1.39 per ton. Given the expected price per ton is consistent with the price stated in the signed agreement, we consider such expected price to be fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In respect of the processing volume

In reviewing the Projection Table, we noted that the estimated wastewater treatment volumes for the three years ending 31 December 2024 are based on the estimated daily processing capacity of this facility, multiplied by the number of operating days of this facility.

Only one facility would conduct Project DF. The actual processing capacity is below the designed processing capacity.

The estimated daily processing capacity are determined with reference to the latest operation status and designed daily processing capacity of this facility. The designed daily processing capacity is stated in construction agreement of this facility. We have reviewed the signed construction agreement and noted that the estimated daily processing capacity is within the designed daily processing capacity. As for the number of operating days, the Directors have taken into account the operation plan of the facility.

Given (a) the estimated daily processing capacity of this facility is within the designed daily processing capacity; and (b) the number of operating days has taken into account the operation plan of each facility, we consider the estimated processing volume of Project DF to be fair and reasonable.

As such, we are of the view that the proposed annual caps for Project DF are fair and reasonable.

Based on the above, we are of the view that the Proposed Caps are fair and reasonable.

6. Reporting requirements and conditions of the Transactions

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Transactions are subject to the following annual review requirements:

- (i) the independent non-executive Directors must review the Transactions and confirm in the annual report and accounts that the Transactions have been entered into:
 - (a) in the ordinary and usual course of business of the Group;
 - (b) on normal commercial terms or better; and
 - (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (ii) the Company must engage its auditors to report on the Transactions every year. The Company's auditors must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Transactions:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (a) have not been approved by the Board;
 - (b) were not, in all material respects, in accordance with the pricing policies of the Group if the Transactions involve the provision of goods or services by the Group;
 - (c) were not entered into, in all material respects, in accordance with the relevant agreements governing the Transactions; and
 - (d) have exceeded the Proposed Caps;
- (iii) the Company must allow, and ensure that the counter-parties to the Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Transactions as set out in paragraph (ii); and
 - (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

In light of the reporting requirements attached to the Transactions, in particular, (i) the restriction of the value of the Transactions by way of the Proposed Caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms and the Proposed Caps not being exceeded, we are of the view that appropriate measures will be in place to monitor the conduct of the transactions and assist to safeguard the interests of the Independent Shareholders.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Transactions are conducted in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Transactions (including the Proposed Caps).

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited
Larry Choi
Managing Director

Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.

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 Group. 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, nor are there any matters the omission of which would make this circular or any statement herein misleading.

2. DISCLOSURE OF INTERESTS**(a) Interests and Short Positions of Directors, Supervisors and Senior Management in the Shares, Underlying Shares and Debentures**

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) Competing and Other Interests of Directors

As at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective associates was interested in any business (apart from the Group's business) which competes or is likely to compete either directly or indirectly with the Group's business (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder).

(c) Material Interests of the Directors in the Transactions

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.

3. POSITIONS HELD BY THE DIRECTORS IN KUNMING DIANCHI INVESTMENT

The following table sets out the positions held by the Directors in Kunming Dianchi Investment, the controlling shareholder of the Company that has an interest or short position 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, as at the Latest Practicable Date:

Name of Director	Position(s) held in the Company	Position(s) held in Kunming Dianchi Investment
Ms. Song Hong	Non-executive Director	Director and financial director

4. INTERESTS HELD BY THE DIRECTORS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

So far as the Company and Directors are aware after making reasonable enquiries, as at the Latest Practicable Date, none of the Directors or Supervisors had any interest, either directly or indirectly, in any assets which have been, since 31 December 2020 (being the deadline to which the latest published audited accounts of the Company were made up), acquired or disposed of or leased by any member of the Group, or are proposed to be acquired or disposed of or leased by any member of the Group.

So far as the Company and Directors are aware after making reasonable enquiries, as at the Latest Practicable Date, none of the Directors or Supervisors was materially interested, either directly or indirectly, in any significant contract or arrangement entered into by the Group that is relevant to the business of the Group and is still valid as at the Latest Practicable Date.

5. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

As at the Latest Practicable Date, none of the Directors or Supervisors has or is proposed to have any service contract with any member of the Group that is not determinable within one year without payment of compensation (other than statutory compensation).

6. 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 2020 (being the deadline to which the latest published audited accounts of the Group were made up).

7. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular or has given its opinion or advice which is contained in this circular:

Name	Qualification
Rainbow Capital	a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities

Rainbow Capital has confirmed that:

- (a) it has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 27 October 2021 and the reference to its name in the form and context in which it appears;
- (b) as at the Latest Practicable Date, it did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (c) as at the Latest Practicable Date, it did not have any direct or indirect interest in any assets which have been, since 31 December 2020 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to each member of the Group, or are proposed to be acquired or disposed of by or leased to each member of the Group.

8. GENERAL

- (a) The company secretary of the Company is Mr. Chiu Ming King, FCG, FCS.
- (b) 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.
- (c) The Company's H Share Registrar is Tricor Investor Services Limited which is located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

9. DOCUMENTS ON DISPLAY

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

- (a) the New Framework Agreement;
- (b) the letter of recommendation from the Independent Board Committee in relation to the continuing connected transaction under the New Framework Agreement, the text of which is set out on page 19 of this circular;
- (c) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the continuing connected transaction under the New Framework Agreement, the text of which is set out on pages 20 to 35 of this circular;
- (d) written consent of Rainbow Capital as mentioned in the paragraph 7 in this Appendix; and
- (e) this circular.

NOTICE OF 2021 SECOND EXTRAORDINARY GENERAL MEETING



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)

NOTICE OF 2021 SECOND EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2021 second extraordinary general meeting (the “EGM”) of Kunming Dianchi Water Treatment Co., Ltd. (the “**Company**”) will be held at 2:30 p.m. on Friday, 12 November 2021 at the meeting room of the Company on the 1st floor at Wastewater Treatment Plant No.7, Kunming Dianchi Tourist Resort, Yunnan Province, the PRC, for the following purpose:

ORDINARY RESOLUTIONS

1. To consider and approve the 2021 interim profit distribution plan of the Company
2. To consider and approve the appointment of Mr. Mr. Ong King Keung as independent non-executive Director
3. To consider and approve the New Framework Agreement and the continuing connected transaction (including the proposed annual caps) thereunder:
 - (i) to approve, ratify and confirm the New Framework Agreement and the continuing connected transaction thereunder (including the corresponding proposed annual caps); and
 - (ii) to authorize any executive Director to sign, execute, perfect and deliver all such documents (including the New Framework Agreement) and do all such measures, acts, matters and things as he or she may in his or her sole and absolute discretion consider necessary or desirable for the purpose of the implementation of each transaction under the New Framework Agreement, the proposed annual caps and other matters contemplated thereunder or ancillary thereto, to waive compliance from and/or agree to any amendment or supplement to the New Framework Agreement which in his or her opinion is not of a material nature and to effect or implement any other matters referred to in this resolution.

By order of the Board
Kunming Dianchi Water Treatment Co., Ltd.
Zeng Feng
Chairperson

Kunming, the PRC
27 October 2021

NOTICE OF 2021 SECOND EXTRAORDINARY GENERAL MEETING

Notes:

1. According to the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Accordingly, each of the resolutions set out in the notice of EGM will be voted by poll. Results of the poll voting will be published on the Company's website at www.kmdcwt.com and the HKExnews website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk after the EGM.
2. The Board of the Company recommends the distribution of an interim cash dividend (the "2021 Interim Dividend") of RMB0.05 per Share (tax inclusive) for the six months ended 30 June 2021, totaling approximately RMB51,455,550.00 (tax inclusive), subject to approval by Shareholders at the EGM.

Pursuant to the Enterprise Income Tax Law of the PRC and its implementation rules, which came into force on 1 January 2008 and other relevant rules, where the Company distributes the 2021 Interim Dividend to non-resident enterprise Shareholders whose names appear on the register of members for H Shares of the Company, it is required to withhold and pay enterprise income tax at the rate of 10%. Any H Shares registered in the name of non-individual registered Shareholders, including HKSCC Nominees Limited, other nominees or trustees, or other organisations or groups, will be treated as shares being held by non-resident enterprise Shareholders, and consequently will be subject to the withholding of the enterprise income tax. According to the requirements of the State Administration of Taxation (Guo Shui Han [2011] No.348) and the relevant laws and regulations, if the individual holders of H shares are residents of Hong Kong or Macau or those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of these Shareholders. If the individual holders of H shares are residents of those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of less than 10%, the Company will assist them to make applications to seek entitlement of the relevant agreed preferential treatments pursuant to the relevant tax treaty. If the individual holders of H shares are residents of those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the actual tax rate stipulated in the relevant tax treaty. If the individual holders of H shares are residents of those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of 20%, or those countries which have not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of these Shareholders.

The Company will determine the resident status of the individual holders of H Shares based on the registered address as recorded in the register of members of the Company on Tuesday, 23 November 2021 (the "Registered Address"). If the resident status of any individual holders of H Shares is not consistent with that indicated by the Registered Address, such individual holders of H shares shall notify the Company's H Share Registrar not later than 4:30 p.m. on Wednesday, 17 November 2021, and provide relevant supporting documents to the Company's H Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Any individual holders of H Shares who fail to provide relevant supporting documents within the time period stated above, may either personally or appoint an agent to attend to the relevant procedures in accordance with the requirements under the tax treaty notice. The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the individual holders of H Shares and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the individual holders of H Shares or any disputes over the withholding mechanism or arrangements.

3. Any Shareholder entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or more proxies to attend and vote instead of him/her. A proxy need not be a Shareholder of the Company.
4. In order to be valid, the instrument appointing a proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, must be completed and returned to the Company's registered office and headquarters in the PRC (for holders of Domestic Shares) or the H Share Registrar of the Company, Tricor Investor Services Limited (for holders of H Shares), at least 24 hours before the EGM (i.e. before 2:30 p.m. on Thursday, 11 November 2021) or any adjourned meeting thereof. Tricor Investor Services Limited is located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Completion and return of a proxy form will not preclude a Shareholder from attending and voting at the EGM or any adjourned meeting thereof should he/she so wish.

NOTICE OF 2021 SECOND EXTRAORDINARY GENERAL MEETING

5. For the purpose of determining the list of holders of H Shares who are entitled to attend the EGM, the H Share register of members of the Company will be closed from Friday, 22 October 2021 to Friday, 12 November 2021 (both days inclusive). The holders of H Shares who wish to attend the EGM are required to submit the share certificates together with the transfer documents to the H Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 21 October 2021 for registration. Holders of H Shares who are registered with Tricor Investor Services Limited on or before the above date are entitled to attend the EGM.

For the purpose of determining the list of holders of H Shares who are entitled to the 2021 Interim Dividend, the H Share register of members of the Company will be closed from Thursday, 18 November 2021 to Tuesday, 23 November 2021 (both days inclusive). In order to be qualified for the 2021 Interim Dividend (subject to approval of Shareholders), the holders of unregistered H Shares are required to submit the transfer documents to the H Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 17 November 2021.

6. In case of joint Shareholdings, the vote of the senior joint Shareholder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint Shareholder(s) and for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint shareholding.
7. The EGM is expected to be held for less than half a day. Shareholders who attend the meeting in person or by proxy shall bear their own travelling and accommodation expenses.
8. A Shareholder or his proxy should produce proof of identity when attending the EGM.
9. The Company's registered office and headquarters in the PRC is No. 7 Wastewater Treatment Plant, Kunming Dianchi National Tourist Resort, Yunnan Province, the PRC.
10. All references to dates and time in this notice are to Hong Kong dates and time.

As of the date of this notice, 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.