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Kunming Dianchi Water Treatment Co., Ltd.

昆明滇池水务股份有限公司

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 3768)

MAJOR TRANSACTION FINANCE LEASE ARRANGEMENT

FINANCE LEASE ARRANGEMENT

The Board is pleased to announce that, on 24 December 2021 (after trading hours), the Company entered into the Finance Lease Agreement with Industrial Bank Financial Leasing, pursuant to which Industrial Bank Financial Leasing agreed to (i) purchase the Leased Assets from the Company at a purchase price of RMB400 million, and (ii) lease back the Leased Assets to the Company for a term of five years.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the transactions contemplated under the Finance Lease Agreement exceeds 25% but is less than 100%, the entering into of the Finance Lease Agreement and the transactions contemplated thereunder constitute a major transaction for the Company and are therefore subject to the notice, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

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

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

According to Rule 14.41(a) of the Listing Rules, a circular containing, among other things, details of the Finance Lease Agreement and other information required to be disclosed under the Listing Rules is required to be despatched to the Shareholders within 15 business days after the date of this announcement (i.e. on or before 17 January 2022). As additional time is required to prepare the financial and other information to be included in the circular, the Company may not be able to despatch the circular within such period, in which case the Company will apply to the Stock Exchange for a waiver from strict compliance with Rule 14.41(a) of the Listing Rules and will make a further announcement in relation to the expected despatch date of the circular in due course.

The Board is pleased to announce that, on 24 December 2021 (after trading hours), the Company and Industrial Bank Financial Leasing entered into the Finance Lease Agreement, pursuant to which Industrial Bank Financial Leasing agreed to (i) purchase the Leased Assets from the Company at a purchase price of RMB400 million, and (ii) lease back the Leased Assets to the Company for a term of five years. The principal terms of the Finance Lease Agreement are set out below.

I. FINANCE LEASE AGREEMENT

Date: 24 December 2021

Parties: (i) Industrial Bank Financial Leasing, as lessor and purchaser; and
(ii) the Company, as lessee and seller.

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

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

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

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

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

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

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

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

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

Lease handling fee:	RMB2 million. The payment shall be made in several instalments and each instalment of lease handling fee shall be 0.5% of each instalment of the purchase price of Leased Assets.
Lease risk deposit:	Nil
Guarantee:	Nil
Repurchase right and price:	Upon expiry of the lease term, the Company has the right to repurchase the Leased Assets on an “as is” basis upon payment of the repurchase price to Industrial Bank Financial Leasing and obtain the title of the Leased Assets, provided that the Company shall settle all the lease payments and other amounts payable under the Finance Lease Agreement. The amount of the repurchase price is RMB10,000.

II. FINANCIAL IMPACT

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

Pursuant to the Finance Lease Arrangement, it is expected that (i) the Group’s total assets will increase by approximately RMB400 million to reflect the proceeds from the disposal of the Leased Assets; and (ii) the Group’s total liabilities will increase by approximately RMB400 million to reflect the Group’s payment obligations under the Finance Lease Agreement. Accordingly, there will be no material change to the total assets less total liabilities in the consolidated statement of financial position.

Regarding the impact on the consolidated statement of profit or loss and other comprehensive income, the estimated aggregate interest and financing fee of the Finance Lease Agreement will be approximately RMB55.32 million (being the sum of annual lease payment of approximately RMB53.32 million calculated based on the interest rate of 4.65% per annum and handling fee of RMB2 million), which will be accounted for in finance costs and amortized over the lease term.

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

The Finance Lease Arrangement was entered into in the ordinary and usual course of business of the Company for the purpose of enabling the Company to obtain financial resources for its operations and to continue to use certain assets required for its operations. Pursuant to the Finance Lease Arrangement, the Company will generate proceeds of approximately RMB400 million, which will be used by the Group to replace bank loans in areas such as the operation of wastewater treatment facilities. The Directors consider that the terms of the Finance Lease Arrangement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IV. INFORMATION ON THE PARTIES TO THE FINANCE LEASE AGREEMENT

The Company

The Company is a leading municipal wastewater treatment and reclaimed water supply services provider in Yunnan Province, the PRC, an integrated water-related services (including running water supply service) provider and a core enterprise implementing the PRC's strategic goal to treat pollutants at Dianchi Lake.

Industrial Bank Financial Leasing

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

V. LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the transactions contemplated under the Finance Lease Agreement exceeds 25% but is less than 100%, the entering into of the Finance Lease Agreement and the transactions contemplated thereunder constitute a major transaction for the Company and are therefore subject to the notice, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

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VI. DEFINITIONS

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

“Board”	the board of Directors
“Company”	Kunming Dianchi Water Treatment Co., Ltd. (昆明滇池水務股份有限公司), a joint stock company established in the PRC with limited liability on 23 December 2010, and its H Shares are listed on the Stock Exchange (stock code: 3768)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Finance Lease Agreement”	the Finance Lease Agreement dated 24 December 2021 entered into between the Company and Industrial Bank Financial Leasing
“Finance Lease Arrangement”	the arrangements contemplated under the terms of the Finance Lease Agreement
“Group”	the Company and its subsidiaries
“Industrial Bank Financial Leasing”	Industrial Bank Financial Leasing Co., Ltd. (興業金融租賃有限公司), a company incorporated in the PRC with limited liability and a third party independent of the Company and its connected persons

“Kunming Dianchi Investment”	Kunming Dianchi Investment Co., Ltd. (昆明滇池投資有限責任公司), a company established in Yunnan Province, the PRC with limited liability on 13 October 2004, which is the controlling Shareholder of the Company
“Leased Assets”	certain assets of wastewater treatment and other equipment and facilities in which the Company has sole ownership and disposal rights as specified under the Finance Lease Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“%”	per cent.

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

Kunming, the PRC, 24 December 2021

As of the date of this announcement, the Board comprises Mr. Zeng Feng, Mr. Chen Changyong and Mr. Luo Yun, as executive Directors; Ms. Song Hong, Ms. Ren Na and Ms. Yu Yanbo, as non-executive Directors; and Mr. Yin Xiaobing, Ms. Zheng Dongyu and Mr. Ong King Keung, as independent non-executive Directors.