
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Kunming Dianchi Water Treatment Co., Ltd., you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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Kunming Dianchi Water Treatment Co., Ltd.

昆明滇池水务股份有限公司

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

(Stock Code: 3768)

MAJOR TRANSACTION FINANCE LEASE ARRANGEMENT

A letter from the Board of the Company is set out on pages 3 to 8 of this circular.

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

25 February 2022

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DEFINITIONS

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

“Board”	the board of Directors of the Company
“Company”	Kunming Dianchi Water Treatment Co., Ltd. (昆明滇池水務股份有限公司), a joint stock company established in the PRC with limited liability on 23 December 2010, and its H Shares are listed on the Stock Exchange (stock code: 3768)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Finance Lease Agreement”	the Finance Lease Agreement dated 24 December 2021 entered into between the Company and Industrial Bank Financial Leasing
“Finance Lease Arrangement”	the disposal of the Leased Assets by the Company to Industrial Bank Financial Leasing which then leases them back to the Company under the terms of the Finance Lease Agreement
“Group”	the Company and its subsidiaries
“Industrial Bank Financial Leasing”	Industrial Bank Financial Leasing Co., Ltd. (興業金融租賃有限責任公司), a company incorporated in the PRC with limited liability and a third party independent of the Company and its connected persons
“Kunming Dianchi Investment”	Kunming Dianchi Investment Co., Ltd. (昆明滇池投資有限責任公司), a company established in Yunnan Province, the PRC with limited liability on 13 October 2004, which is the controlling Shareholder of the Company
“Latest Practicable Date”	21 February 2022 being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Leased Assets”	certain assets of wastewater treatment and other equipment and facilities in which the Company has sole ownership and disposal rights as specified under the Finance Lease Agreement

DEFINITIONS

“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.

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. Ong King Keung

25 February 2022

To the Shareholders

Dear Sirs and Madams,

MAJOR TRANSACTION **FINANCE LEASE ARRANGEMENT**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 24 December 2021 in relation to the Finance Lease Arrangement. On 24 December 2021, the Company entered into the Finance Lease Agreement with Industrial Bank Financial Leasing, pursuant to which Industrial Bank Financial Leasing agreed to (i) purchase the Leased Assets from the Company at a purchase price of RMB400 million, and (ii) lease back the Leased Assets to the Company for a term of five years. The principal terms of the Finance Lease Agreement are set out below.

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

LETTER FROM THE BOARD

2. 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.

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.

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.

LETTER FROM THE BOARD

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 and lease interest rate

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, lease interest and handling fee. The total amount of the lease payments is approximately RMB455 million.

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 instalment of lease payment for each Lease Period in ten equal instalments 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 and guarantee

The transactions contemplated under the Finance Lease Agreement are not subject to lease risk deposit or guarantee.

LETTER FROM THE BOARD

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.

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

The Finance Lease Arrangement was entered into in the ordinary and usual course of business of the Company for the purpose of enabling the Company to obtain financial resources for its operations and to continue to use certain assets required for its operations. Pursuant to the Finance Lease Arrangement, the Company 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.

4. FINANCIAL IMPACT

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

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.

LETTER FROM THE BOARD

5. 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 circular, 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.

6. 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 circular, 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.

LETTER FROM THE BOARD

7. RECOMMENDATIONS

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

8. ADDITIONAL INFORMATION

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

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

1. FINANCIAL INFORMATION OF THE GROUP

Details of the audited consolidated financial information of the Group for each of the three years ended 31 December 2018, 2019 and 2020 are disclosed in the following annual reports of the Company for the years ended 31 December 2018, 2019 and 2020 respectively, and details of the unaudited consolidated interim financial information of the Group for the six months ended 30 June 2021 are disclosed in the following interim report of the Company for the period ended 30 June 2021, which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kmdcwt.com) and are available for inspection:

- (i) The Group's annual report for the year ended 31 December 2018 published on 26 April 2019 (available at <https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0426/ltn201904261719.pdf>), particularly as shown in pages 128 to 242.
- (ii) The Group's annual report for the year ended 31 December 2019 published on 17 April 2020 (available at <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0417/2020041700781.pdf>), particularly as shown in pages 116 to 215.
- (iii) The Group's annual report for the year ended 31 December 2020 published on 13 April 2021 (available at <https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0413/2021041300254.pdf>), particularly as shown in pages 167 to 311.
- (iv) The Group's interim report for the six months ended 30 June 2021 published on 30 August 2021 (available at <https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0830/2021083000545.pdf>), particularly as shown in pages 61 to 132.

2. INDEBTEDNESS OF THE GROUP

As at the close of business on 31 December 2021, being the latest practicable date for ascertaining the indebtedness of the Group prior to the printing of this circular, the Group mainly had (i) unsecured short-term borrowings of approximately RMB1,933 million, unsecured long-term borrowings of approximately RMB1,493 million; (ii) secured short-term borrowings of approximately RMB2,045 million, secured long-term borrowings of approximately RMB700 million, in which approximately RMB2,184 million was secured by corporate guarantees issued by the Company and approximately RMB561 million was secured by property, plant and equipment; (iii) corporate bonds of approximately RMB39 million; and (iv) bank's domestic letter of credit of approximately RMB196 million.

Save as disclosed above, as at the close of business on 31 December 2021, the Group did not have any other borrowings, mortgages, charges, bonds or debt securities, or other liabilities, liabilities under acceptances or acceptance credits or hire purchase commitments, contingent liabilities or guarantees issued and outstanding, or authorized or otherwise incurred but not issued, other than intra-group liabilities.

3. WORKING CAPITAL OF THE GROUP

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

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

4. FINANCIAL AND TRADING PROSPECT OF THE GROUP

The Group is a leading municipal wastewater treatment and reclaimed water supply services provider in Yunnan Province, the PRC, an integrated water-related services (including running water supply service) provider and a core enterprise implementing the PRC's strategic goal to treat pollutants at Dianchi Lake. The Company main businesses of wastewater treatment, reclaimed water supply and running water supply have maintained a continuous growth trend driven by policy support and market demand.

For wastewater treatment business, as of 30 June 2021, the Group had a total of 37 wastewater treatment plants in operation (including 14 in the main city of Kunming and 23 in other areas of China), with a total wastewater treatment capacity of 1.98 million cubic meters per day. Additionally, the facilities with management services provided by the Group have a total designed wastewater treatment capacity of 0.5 million cubic meters per day. With our technologically advanced facilities, independently developed patents and strong management skills, we have been able to maintain low costs while provide high quality wastewater treatment services. The Group's wastewater plant in Kunming has also formed a variety of effluent water quality standards such as Class I Category A standard, Class I reinforcement, super limited phosphorus removal and DF membrane process, laying the technical foundation for standard upgrade of existing water plants. In the future, the Group will continue to expand and improve its wastewater treatment projects.

For reclaimed water supply business, as of 30 June 2021, we had 11 wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 233,000 cubic meters. Benefiting from the Company's technological foundation, we are able to produce and supply different high quality reclaimed water based on the different needs of our customers and increase economic benefits. In recent years, as the government attaches great importance to the use of reclaimed water, the amount of reclaimed water has been increasing year by year.

For running water supply business, as of 30 June 2021, we had 7 running water plants in operation in the PRC. The Company's running water supply business has also been growing steadily in recent years.

Based on the Company's main business, we are also actively expanding to the upstream and downstream of the industry chain of the water industry, mainly including sludge resource utilization, mine rehabilitation, solid waste disposal and smart water plant construction.

5. 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 date of preparation of the latest published audited consolidated financial statements of the Group.

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

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

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.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests and Short Positions of Directors, Supervisors and Chief Executives of the Company in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

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

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

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

Long position

Name of Shareholder	Capacity/ nature of interest	Class of Shares	Number of Shares held	Approximate percentage of issued share capital of the Company as at the Latest Practicable Date
Kunming Dianchi Investment Co., Ltd. (昆明滇池投資有限責任公司)	Beneficial owner	Domestic Shares	660,266,893	64.16%
Kunming Industrial Development & Investment Co., Ltd. (昆明產業開發投資有限責任公司)	Interest of controlled corporation	H Shares	59,000,000	5.73%
Kunming State-owned Assets Management and Operations Co. Ltd. (昆明市國有資產管理營運有限責任公司)	Beneficial owner	H Shares	39,790,000	3.87%

Name of Shareholder	Capacity/ nature of interest	Class of Shares	Number of Shares held	Approximate percentage of issued share capital of the Company as at the Latest Practicable Date
Yunnan Provincial Investment Holdings Group Co., Ltd. (雲南省投資控股集團有限公司)	Beneficial owner	H Shares	64,770,000	6.29%
Modern Orient Limited	Interest of controlled corporation	H Shares	47,754,000	4.64%
Beijing Enterprises Water Group Limited	Beneficial owner	H Shares	47,754,000	4.64%
Beijing Enterprises Investments Limited	Interest of controlled corporation	H Shares	47,754,000	4.64%
Beijing Enterprises Holdings Limited	Interest of controlled corporation	H Shares	47,754,000	4.64%
Beijing Enterprises Group Company Limited	Interest of controlled corporation	H Shares	47,754,000	4.64%
Beijing Enterprises Group (BVI) Company Limited	Interest of controlled corporation	H Shares	47,754,000	4.64%
Beijing Enterprises Environmental Construction Limited	Interest of controlled corporation	H Shares	47,754,000	4.64%

Notes:

1. The data disclosed above are mainly based on information provided on the website of Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and records of the register required to be kept by the Company under Section 336 of the SFO.
2. Pursuant to Section 336 of the SFO, if certain conditions are met, the Shareholders of the Company are required to submit a disclosure of interest notice. In the event of changes in the shareholding of the Shareholders in the Company, the Shareholders will not be required to notify the Company and the Stock Exchange unless certain conditions are met. Therefore, the latest shareholding of the Shareholders in the Company may be different from the shareholding submitted to the Stock Exchange.
3. Such 47,754,000 Shares belong to the same batch of Shares.

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

3. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

4. COMPETING INTERESTS OF DIRECTORS

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

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

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

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

6. MATERIAL CONTRACTS

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

- (a) On 23 January 2020, 13 February 2020 and 22 February 2021, the Company entered into three entrusted loan contracts with Kunming Bus Group Co., Ltd. (昆明公交集團有限責任公司), pursuant to which the Company entrusts a financial institution to provide entrusted loans of RMB60 million, RMB240 million and RMB300 million, respectively, to Kunming Bus Group Co., Ltd., each with a term of 1 year and an interest rate of 8.5% per annum (please refer to the Company's announcements disclosed on the websites of the Stock Exchange and the Company on 13 February 2020 and 22 February 2021 for details);
- (b) On 2 June 2020, 17 June 2021 and 11 October 2021, the Company entered into three entrusted loan contracts with Kunming Development and Investment Group Co., Ltd. (昆明發展投資集團有限公司), pursuant to which the Company entrusts a financial institution to provide entrusted loans of RMB350 million, RMB200 million and RMB100 million, respectively, to Kunming Development and Investment Group Co., Ltd., with a term of 1 year, until 24 December 2021 and until 1 December 2021, respectively, and an interest rate of 7.5% per annum (please refer to the Company's announcements disclosed on the websites of the Stock Exchange and the Company on 2 June 2020, 17 June 2021 and 11 October 2021 for details);

- (c) On 4 September 2020 and 24 September 2021, the Company entered into two entrusted loan contracts with Kunming Xindu Investment Co., Ltd. (昆明新都投資有限公司), pursuant to which the Company entrusts a financial institution to provide entrusted loans each of RMB350 million to Kunming Xindu Investment Co., Ltd., with a term of 1 year and until 28 February 2022, respectively, and an interest rate of 7% per annum and 7.5% per annum, respectively (please refer to the Company's announcements disclosed on the websites of the Stock Exchange and the Company on 4 September 2020 and 24 September 2021 for details);
- (d) On 11 September 2020, the Company (as the asset entrustor) entered into the Mutual Trust No. 4 Asset Management Agreement with Bosera Capital Management Co., Ltd. (博時資本管理有限公司) (as the asset manager) and a financial institution (as the asset trustee), pursuant to which the Company entrusts an amount of RMB300 million to invest in the credits of accounts receivable held by Kunming Agricultural Development Investment Co., Ltd. (昆明農業發展投資有限公司), with a term of 12 months and an investment return of approximately 7% per annum (please refer to the Company's announcement disclosed on the websites of the Stock Exchange and the Company on 11 September 2020 for details);
- (e) On 29 September 2021, the Company (as the asset entrustor) entered into the Mutual Trust No. 5 Asset Management Agreement with Bosera Capital Management Co., Ltd. (as the asset manager) and a financial institution (as the asset trustee), pursuant to which the Company entrusts an amount of RMB300 million to invest in the credits of accounts receivable held by Kunming Agricultural Development Investment Co., Ltd. and in bank deposits and cash, with a term of 3 months and an investment return of approximately 8% per annum; on 31 December 2021, the Company entered into a supplemental agreement extending the term of the Mutual Trust No. 5 Asset Management Agreement to 10 April 2022 (please refer to the Company's announcements disclosed on the websites of the Stock Exchange and the Company on 29 September 2021 and 31 December 2021 for details);
- (f) On 17 November 2020, Kunming Dianchi Logistics Co., Ltd. (昆明滇池物流有限責任公司), a wholly owned subsidiary of the Company, and Kunming Dianchi Investment entered into the sludge treatment and disposal agreement, pursuant to which Kunming Dianchi Investment shall provide sludge treatment and disposal services to Dianchi Logistics Co., Ltd. for three years ending 31 December 2022, for some of sludge generated from wastewater treatment plants of the Group in Kunming, subject to annual caps of RMB3,300,000, RMB19,800,000 and RMB19,800,000 for the three years of 2020, 2021 and 2022 (please refer to the Company's announcement disclosed on the websites of the Stock Exchange and the Company on 17 November 2020 for details);

- (g) On 29 September 2021, the Company and Kunming Dianchi Investment entered into the entrusted operation and management framework agreement, pursuant to which the Group will continue to provide operation and management services to Kunming Dianchi Investment and its subsidiaries (excluding the Group) for three years until 31 December 2024, including operation and management services for wastewater treatment facilities, reclaimed water supply facilities, and running water supply facilities. The annual caps (after tax) for the three years of 2022, 2023 and 2024 are RMB421,063,000, RMB574,539,000 and RMB593,140,000, respectively (please refer to the Company's announcement and circular disclosed on the websites of the Stock Exchange and the Company on 29 September 2021 and 26 October 2021, respectively, for details);
- (h) On 24 December 2021, the Company entered into the finance lease agreement with Industrial Bank Financial Leasing, pursuant to which Industrial Bank Financial Leasing agreed to (i) purchase the leased assets from the Company at a purchase price of RMB400 million, and (ii) lease back the leased assets to the Company for a term of five years (please refer to the Company's announcement disclosed on the websites of the Stock Exchange and the Company on 24 December 2021 for details).

7. LITIGATION

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

8. GENERAL

- (a) The Company's registered office and headquarters in the PRC is located at Wastewater Treatment Plant No. 7, Kunming Dianchi Tourist Resort, Yunnan Province, PRC and its principal place of business in Hong Kong is located at Room 1901, 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.
- (b) The Company's H Share Registrar is Tricor Investor Services Limited which is located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The company secretary of the Company is Mr. Chiu Ming King, FCG, FCS.

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 memorandum and articles of association of the Company;
- (b) the annual reports of the Company for each of the three financial years ended 31 December 2018, 31 December 2019 and 31 December 2020;
- (c) the interim report of the Company for the six months ended 30 June 2021;
- (d) the material contracts referred to in the section headed “Material Contracts” in this appendix;
and
- (e) this circular.