

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**Luzhou Xinglu Water (Group) Co., Ltd.\***

**瀘州市興瀘水務(集團)股份有限公司**

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

**(Stock code: 2281)**

**CONTINUING CONNECTED TRANSACTION –  
THE CONSTRUCTION SERVICE AGREEMENT  
WITH LINGANG INDUSTRIAL DEVELOPMENT**

**BACKGROUND**

On 31 August 2021 (after trading hours), the Company entered into the Lingang Industrial Development Construction Service Agreement with Lingang Industrial Development, pursuant to which, the Company agreed to provide water supply pipelines installation services, including the construction of the public pipe network (公共管網), to Lingang Industrial Development with a construction period of 90 calendar days in 2021.

**LISTING RULES IMPLICATIONS**

As at the date of this announcement, Lingang Industrial Development is wholly-owned by Lingang Investment. Lingang Investment is directly held as to approximately 66.33% by Xinglu Investment, the Controlling Shareholder. Accordingly, Lingang Industrial Development is a connected person of the Company under the Listing Rules and the transaction contemplated under the Lingang Industrial Development Construction Service Agreement constitutes a continuing connected transaction for the Company pursuant to Chapter 14A of the Listing Rules.

Pursuant to Rules 14A.81 and 14A.82 of the Listing Rules, the transaction contemplated under the Lingang Industrial Development Construction Service Agreement is required to be aggregated with other transactions contemplated under the Previous Construction Service Agreements. As the highest applicable percentage ratio in respect of the transactions contemplated under the Lingang Industrial Development Construction Service Agreement and the Previous Construction Service Agreements, on an annual and aggregated basis, exceeds 5%, the transaction contemplated under the Lingang Industrial Development Construction Service Agreement constitutes a continuing connected transaction of the Company subject to the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## GENERAL

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Lingang Industrial Development Construction Service Agreement and the transaction contemplated thereunder. Xinglu Investment and its associates shall abstain from voting on the resolution approving the Lingang Industrial Development Construction Service Agreement and the transaction contemplated thereunder at the EGM.

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders on, among other things, the terms of the Lingang Industrial Development Construction Service Agreement and on how to vote on the resolution in respect of the Lingang Industrial Development Construction Service Agreement at the EGM. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among others, further details of the Lingang Industrial Development Construction Service Agreement, a letter from the Independent Board Committee and a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, will be despatched to the Shareholders in due course.

## I. BACKGROUND

On 31 August 2021 (after trading hours), the Company entered into the Lingang Industrial Development Construction Service Agreement with Lingang Industrial Development, pursuant to which, the Company agreed to provide water supply pipelines installation services including the construction of the public pipe network (公共管網) to Lingang Industrial Development.

The principal terms of the Lingang Industrial Development Construction Service Agreement are set out below:

**Date:** 31 August 2021 (after trading hours)

**Parties:** (1) the Company; and  
(2) Lingang Industrial Development

**Project:** The project under the Lingang Industrial Development Construction Service Agreement is Yueyingdongfang Water Supply Pipelines Installation Project I, II and III (月映東方一、二、三期給水管道安裝工程) which is located in Longmatan District of Luzhou City, the PRC.

<b>Scope of Construction Service:</b>	The water supply pipelines installation services that the Company agreed to provide to Lingang Industrial Development under the Lingang Industrial Development Construction Service Agreement include the construction of the public pipe network (公共管網).
<b>Construction Period:</b>	90 calendar days starting from the date notified by Lingang Industrial Development in writing after its payment of 60% of the construction service fee in accordance with the Lingang Industrial Development Construction Service Agreement and ending on or before 31 December 2021.
<b>Construction Service Fee and Payment Terms:</b>	<p>The final construction service fee under the Lingang Industrial Development Construction Service Agreement will be not more than an estimated amount of RMB5,659,740 (tax inclusive) and shall be determined by Lingang Industrial Development and the Company based on the final mapping report (終測繪報告), financial review report (財評報告) and the actual costs and expenses as shown in the cost and expenses sheet (費用預核定單).</p> <p>Payments shall be made in the following manners:</p> <ol style="list-style-type: none"> <li>(1) RMB3,395,844, representing 60% of the highest estimated construction service fee, shall be paid by Lingang Industrial Development as prepayment within seven (7) business days after the signing of the Lingang Industrial Development Construction Service Agreement; and</li> <li>(2) the balance of the final construction service fee shall be paid by Lingang Industrial Development after the completion of the substantial construction works and prior to the issuance of installation notice of commercials balance meters by the Company.</li> </ol>
<b>Period of Warranty:</b>	Two (2) years commencing from the examination and acceptance date of the construction work of the project under the Lingang Industrial Development Construction Service Agreement.

**Pricing Policy:**

The construction service fee was determined by the Company and Lingang Industrial Development in accordance with the pricing standard set out in the Company's internal pricing document (Lu Shui Gu Fen [2021] No. 23) which was made based on the documents published by the PRC governmental authorities from time to time, including but not limited to the Notice on Relaxation of the Price Control of Installation, Inspection and Repairment for Utilities Projects (Chuanfagaijiage [2015] No. 884) (關於放開水電氣工程安裝及檢查維修價格的通知(川發改價格[2015]884 號)) issued by Sichuan Province Development and Reform Commission (四川省發展和改革委員會), the Notice on Forwarding Relaxation of the Price Control of Installation, Inspection and Repairment for Utilities Projects (Chuanfagaijiage [2016] No. 71) (關於轉發放開水電氣工程安裝及檢查維修價格的通知(川發改價格[2016]71 號)) issued by Luzhou City Development and Reform Commission (瀘州市發展和改革委員會), and the Sichuan Province Quota of Project Quantities Detailed Pricing List for Engineering Construction (2020 version) (四川省建設工程工程量清單計價定額 (2020年版)) issued by Sichuan Province Housing and Urban-Rural Development Department(四川省住房和城鄉建設廳) with their respective ancillary documents or applicable revised versions.

The PRC governmental and Company's pricing standards provide pre-determined mechanism for calculation of construction service fees detailing the fees to be charged for each category of service and the applicable formula for calculation of fees in different scenarios under each category. While determining the construction service fee under the Lingang Industrial Development Construction Service Agreement, the Company and Lingang Industrial Development calculated in accordance with the pre-determined formulae based on the actual construction area of the project, the specific number of the users, the types of the construction materials and their respective market prices, and in ordinary and usual course of business and on normal commercial terms, and such terms and conditions were negotiated on an arm's length basis and are not more favorable than those offered by the Group to Independent Third Parties.

**II. HISTORICAL FIGURES**

The annual construction service fees paid by Lingang Industrial Development to the Group for the three years ended 31 December 2020 amounted to nil, approximately RMB10,608 and nil, respectively.

### III. ANNUAL CAPS

The table below sets out the annual caps for the transactions under the Lingang Industrial Development Construction Service Agreement, the Previous Construction Service Agreements and the aggregate annual cap of them, which are the estimated largest construction service fees determined in accordance with the aforementioned pricing policies.

	<b>For the year ending 31 December 2021</b>
<b>Annual caps</b>	<b>2021</b>
	<i>(RMB in million)</i>
Lingang Industrial Development Construction Service Agreement	5.66
Previous Construction Service Agreements	39.43
	<hr/>
<b>Aggregate Annual Cap</b>	<b>45.09</b>
	<hr/> <hr/>

### IV. INTERNAL CONTROL

In order to ensure the terms of the Lingang Industrial Development Construction Service Agreement are on normal commercial terms and fair and reasonable to the Company and the Shareholders and are no more favourable than those offered by the Group to Independent Third Parties, the Company has formulated the following internal control policies and adopted the following internal control measures:

- (i) the legal department and finance department of the Company will closely monitor the transaction under the Lingang Industrial Development Construction Service Agreement to ensure that the transaction amount will not exceed the annual cap for the Lingang Industrial Development Construction Service Agreement;
- (ii) the legal department of the Company will conduct regular random checks to review and assess whether the transaction contemplated under the Lingang Industrial Development Construction Service Agreement is conducted on normal commercial terms, in accordance with the terms set out in the agreement and whether the construction service fees and relevant contract terms are in the interest of the Company and the Shareholders as a whole;
- (iii) the Company's external auditors will conduct an annual review of the transaction entered into under the Lingang Industrial Development Construction Service Agreement to ensure that the transaction amount is within the annual cap and the transaction is in accordance with the terms set out in the agreement; and

(iv) the Company's independent non-executive Directors will conduct regular reviews of the status of the transaction under the Lingang Industrial Development Service Agreement to ensure that the Company has complied with its internal approval process, the terms of the Lingang Industrial Development Construction Service Agreement and the relevant requirements under the Listing Rules.

## **V. INFORMATION ABOUT LINGANG INDUSTRIAL DEVELOPMENT AND THE GROUP**

Lingang Industrial Development is a limited liability company established in the PRC on 15 November 2013 and is primarily engaged in project construction of real estate development, which is as at the date of this announcement wholly-owned by Lingang Investment. Lingang Investment is directly held as to 66.33% by Xinglu Investment, the Controlling Shareholder. Xinglu Investment is directly held as to 90% by Luzhou State-owned Assets Supervision and Administration Commission (瀘州市國有資產監督管理委員會) and is primarily engaged in investment and assets management.

The Group is mainly engaged in the provision of tap water supply and related installation and maintenance services and wastewater treatment and related infrastructure construction services.

## **VI. BENEFITS OF AND REASONS FOR THE TRANSACTION**

The Company has been providing installation and maintenance services in its ordinary and usual course of business to companies in Luzhou City, and therefore, the Company is familiar with the requirements and the specifications for the installation and maintenance services required by local government and companies. The Directors believe that entering into the Lingang Industrial Development Construction Service Agreement is beneficial for the long-term business relationship between the Company and Lingang Industrial Development. By entering into the Lingang Industrial Development Construction Service Agreement, the Group can further expand its principal business. The Directors are of the view that entering into the Lingang Industrial Development Construction Service Agreement is in line with the Group's goal to enhance the Company's position in the industry and its influence in the region.

The Directors (including the independent non-executive Directors) are of the view that the terms of the transaction under the Lingang Industrial Development Construction Service Agreement is fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Lingang Industrial Development Construction Service Agreement and the transaction contemplated thereunder have been approved by the Board. None of the Directors has material interest in the Lingang Industrial Development Construction Service Agreement and the transaction contemplated thereunder and hence no Director is required to abstain from voting on the relevant resolution of the Board approving the same.

## **VII. LISTING RULES IMPLICATIONS**

As at the date of this announcement, Lingang Industrial Development is wholly-owned by Lingang Investment. Lingang Investment is directly held as to approximately 66.33% by Xinglu Investment, the Controlling Shareholder. Accordingly, Lingang Industrial Development is a connected person of the Company under the Listing Rules and the transaction contemplated under the Lingang Industrial Development Construction Service Agreement constitutes a continuing connected transaction for the Company pursuant to Chapter 14A of the Listing Rules.

Pursuant to Rules 14A.81 and 14A.82 of the Listing Rules, the transaction contemplated under the Lingang Industrial Development Construction Service Agreement is required to be aggregated with other transactions contemplated under the Previous Construction Service Agreements. As the highest applicable percentage ratio in respect of the transactions contemplated under the Lingang Industrial Development Construction Service Agreement and the Previous Construction Service Agreements, on an annual and aggregated basis, exceeds 5%, the transaction contemplated under the Lingang Industrial Development Construction Service Agreement constitutes a continuing connected transaction of the Company subject to the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **VIII. EXTRAORDINARY GENERAL MEETING**

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Lingang Industrial Development Construction Service Agreement and the transaction contemplated thereunder. Xinglu Investment and its associates shall abstain from voting on the resolution approving the Lingang Industrial Development Construction Service Agreement and the transaction contemplated thereunder at the EGM.

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders on, among other things, the terms of the Lingang Industrial Development Construction Service Agreement and on how to vote on the resolution in respect of the Lingang Industrial Development Construction Service Agreement at the EGM. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among others, further details of the Lingang Industrial Development Construction Service Agreement, a letter from the Independent Board Committee and a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, will be despatched to the Shareholders in due course.

## IX. DEFINITIONS

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

“Board”	the board of Directors
“Company”	Luzhou Xinglu Water (Group) Co., Ltd.* (瀘州市興瀘水務(集團)股份有限公司), a joint stock company with limited liability incorporated in the PRC, whose H Shares are listed on the Main Board of the Stock Exchange
“Controlling Shareholder”	has the meaning ascribed thereto under the Listing Rules, and in the context of this announcement, refers to the controlling shareholder of the Company, being Xinglu Investment
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Lingang Industrial Development Construction Service Agreement and the transaction contemplated thereunder
“Group”	the Company and its subsidiaries
“H Share(s)”	the ordinary share(s) in issue in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a committee of the Board comprising Mr. Gu Ming’an, Mr. Lin Bing and Mr. Cheng Hok Kai, Frederick, all being the independent non-executive Directors, which is formed to advise the Independent Shareholders on the Lingang Industrial Development Construction Service Agreement and the transaction contemplated thereunder
“Independent Financial Adviser”	Maxa Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Lingang Industrial Development Construction Service Agreement and the transaction contemplated thereunder



“Independent Shareholders”	the Shareholders who are not interested or involved in the Lingang Industrial Development Construction Service Agreement and the transaction contemplated thereunder
“Independent Third Party(ies)”	person(s) or company(ies) which is(are) not a connected person(s) (as defined in the Listing Rules) of the Company
“Lingang Industrial Development”	Luzhou Lingang Industrial Development Co., Ltd.* (瀘州臨港產業開發有限公司), a PRC limited liability company established on 15 November 2013
“Lingang Industrial Development Construction Service Agreement”	The construction service agreement entered into between the Company and Lingang Industrial Development on 31 August 2021
“Lingang Investment”	Luzhou Lingang Investment Group Co., Ltd.* (瀘州臨港投資集團有限公司), a PRC limited liability company established on 16 June 2013
“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, for the purposes of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Previous Construction Service Agreements”	the construction service agreement dated 19 June 2020 and its supplemental agreement dated 28 January 2021 entered into between the Company and Luzhou Aviation Development Investment Group Co., Ltd.* (瀘州航空發展投資集團有限公司), the construction service agreement dated 26 February 2021 entered into between the Company and Luzhou Xinglu Jutai Construction Company Limited Jiangyang Branch* (瀘州興瀘居泰建設有限公司江陽分公司), the construction service agreement dated 2 June 2021 entered into between the Company and Xinglu Investment, the construction service agreement dated 30 June 2021 entered into between the Company and Lingang Industrial Development, the construction service agreement dated 27 August 2021 entered into between the Company and Luzhou Jiaotou Group Car Station Construction Co., Ltd.* (瀘州交投集團汽車站點建設有限公司) and the construction service agreement dated 27 August 2021 entered into between the Company and Luzhou Xinglu Jutai Construction Company Limited* (瀘州興瀘居泰建設有限公司)

“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	share(s) of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Xinglu Investment”	Luzhou City Xinglu Investment Group Co., Ltd.* (瀘州市興瀘投資集團有限公司), the Controlling Shareholder of the Company, a PRC limited liability company established on 28 January 2003 and owned as to 90% by the State-owned Assets Supervision and Administration Commission of Luzhou (瀘州市國有資產監督管理委員會)

By order of the Board  
**Luzhou Xinglu Water (Group) Co., Ltd.\***  
**Zhang Qi**  
*Chairman*

Luzhou, Sichuan Province, the PRC  
31 August 2021

*As at the date of this announcement, the Board comprises of (i) three executive Directors, namely Mr. Zhang Qi, Mr. Liao Xingyue and Mr. Wang Junhua; (ii) three non-executive Directors, namely Mr. Chen Bing, Ms. Xu Yan and Mr. Xie Xin; and (iii) three independent non-executive Directors, namely Mr. Gu Ming'an, Mr. Lin Bing and Mr. Cheng Hok Kai, Frederick.*

\* *For identification purposes only*