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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 TRANSACTIONS
WATER SUPPLY PIPELINES INSTALLATION AND
CONSTRUCTION AGREEMENT**

BACKGROUND

On 23 December 2022 (after trading hours), the Company entered into the Water Supply Pipelines Installation and Construction Agreement with Lingang Investment Group, pursuant to which, the Company agreed to provide water supply pipelines installation services to Lingang Investment Group with a construction period of 7 calendar days.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Lingang Investment Group is directly owned around 50.27% by Xinglu Investment, the Controlling Shareholder. Accordingly, Lingang Investment Group is a connected person of the Company under the Listing Rules and the transactions contemplated under the Water Supply Pipelines Installation and Construction Agreement constitute continuing connected transactions for the Company pursuant to the Chapter 14A of the Listing Rules.

Pursuant to Rules 14A.81 and 14A.82 of the Listing Rules, the transactions contemplated under the Water Supply Pipelines Installation and Construction Agreement are required to be aggregated with other transactions contemplated under the Previous Construction Service Agreements. As each of the applicable percentage ratios (other than profits ratio) under the Listing Rules in respect of the transactions contemplated under the Water Supply Pipelines Installation and Construction Agreement and the Previous Construction Service Agreements, on an annual and aggregated basis for the past 12 months, exceeds 0.1% but is less than 5%, according to Chapter 14A of the Listing Rules, the transactions contemplated thereunder are subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

I. INTRODUCTION

On 23 December 2022 (after trading hours), the Company entered into the Water Supply Pipelines Installation and Construction Agreement with Lingang Investment Group, pursuant to which, the Company agreed to provide water supply pipelines installation services to Lingang Investment Group with a construction period of 7 calendar days.

II. WATER SUPPLY PIPELINES INSTALLATION AND CONSTRUCTION AGREEMENT

The main terms of Water Supply Pipelines Installation and Construction Agreement are set out below:

Date: 23 December 2022 (after trading hours)

Parties: (1) the Company; and
(2) Lingang Investment Group.

Project: Science and Technology Innovation Business Incubator Phase II Project Water Supply Pipeline Installation Project (科技創新企業孵化器二期項目給水管道安裝工程).

Scope of Construction Services: The tap water pipelines installation services that the Company agreed to provide to Lingang Investment Group under the Water Supply Pipelines Installation and Construction Agreement include:

- (1) the installation of water pipelines from the municipal water transporting and distributing principal main pipelines (市政輸配水主管) to the pipelines before the commercial balance meters (貿易結算水表); and
- (2) the installation of commercial balance meters.

Construction Period: 7 calendar days starting from the date notified by Lingang Investment Group in writing after its prepayment of construction service fee in accordance with the Water Supply Pipelines Installation and Construction Agreement.

Constructions Services Fee and Payment Terms: The final construction service fee under the Water Supply Pipelines Installation and Construction Agreement was estimated approximately RMB6.055 million (tax inclusive) and shall be determined by Lingang Investment Group and the Company based on the final mapping report (終測繪報告) and the actual costs and expenses listed in the cost and expenses sheet (費用預核定單). Without prejudice to the aforementioned calculation method, the final construction fee of the centralized pipe network shall be verified according to the actual area as set out in the final mapping report and if a financial evaluation is required, the final price shall be determined according to the financial evaluation report.

Payments shall be made in the following manners:

- (1) RMB0.7 million shall be prepaid by Lingang Investment Group within 5 business days after signing the Water Supply Pipelines Installation and Construction Agreement;
- (2) approximately RMB1.621 million shall be paid by Lingang Investment Group before the completion of the main part of Project Phase I and the issuance of the commercials balances meters installation order;
- (3) approximately RMB1.929 million shall be paid by Lingang Investment Group in one lump sum after the completion of the construction of Project Phase II and before putting it into use; and
- (4) approximately RMB1.805 million shall be paid by Lingang Investment Group in one lump sum after the construction of Project Phase III and before putting it into use.

Period of Warranty: 2 years commencing from the examination and acceptance date of construction work of the project under the Water Supply Pipelines Installation and Construction Agreement.

Pricing Policy: The construction service fee was determined by the Company and Lingang Investment Group in accordance with the pricing standard set out in the Company's internal pricing document (Lu Shui Gu Fen [2022] No. 142) which was made based on the documents published by the governmental authorities from time to time, including but not limited to the Notice on Cleaning Up and Standardizing the Charges for Urban Water Supply, Power Supply, Gas Supply and Heating Industry and Promoting the High-Quality Development of the Industries (Guobanhan [2020] No. 129) (關於清理規範城鎮供水供電供氣供暖行業收費促進行業高質量發展意見的通知(國辦函[2020]129號)) issued by General Office of the State Council of the People's Republic of China (國務院辦公廳), the Notice of the Implementation Plan of Sichuan Province on Cleaning Up and Standardizing Charges for Urban Water Supply, Power Supply, Gas Supply and Heating Industry and Promoting High Quality Development of the Industry (Chuanfagaijiage [2021] No. 354) (四川省清理規範城鎮供水供電供氣供暖行業收費促進行業高質量發展實施方案的通知(川發改價格[2021]354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 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 Water Supply Pipelines Installation and Construction Agreement, the Company and Lingang Investment Group 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.

III. HISTORICAL FIGURES

The table below sets out the actual transaction amounts, being construction service fees paid by Lingang Investment Group to the Group for the three years ended 31 December 2019, 2020 and 2021 respectively.

Actual transaction amounts	For the year ended 31 December		
	2019	2020	2021
	(RMB in million)	(RMB in million)	(RMB in million)
Lingang Investment Group	13.23	8.95	1.67

IV. ANNUAL CAPS

The table below set out the annual caps for the transactions under the Water Supply Pipelines Installation and Construction 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.

Annual caps	For the year ending 31 December	
	2022	2023
	(RMB in million)	(RMB in million)
Water Supply Pipelines Installation and Construction Agreement	0.8	5.5
Previous Construction Service Agreements	4.6	N/A
Aggregate Annual Cap	5.4	5.5

V. INTERNAL CONTROL

In order to ensure the terms of the Water Supply Pipelines Installation and Construction Agreement are on normal commercial terms and fair and reasonable to the Company and the Shareholders and are no more favorable 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 transactions under the Water Supply Pipelines Installation and Construction Agreement to ensure that the transactions amounts will not exceed the annual cap for each of the Water Supply Pipelines Installation and Construction Agreement;
- (ii) the legal department of the Company will conduct regular random checks to review and assess whether the transactions contemplated under the Water Supply Pipelines Installation and Construction Agreement are conducted on normal commercial terms, in accordance with the terms set out in the Water Supply Pipelines Installation and Construction 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 transactions under the Water Supply Pipelines Installation and Construction Agreement to ensure that the transactions amounts are within the annual cap and the transactions are in accordance with the terms set out in the Water Supply Pipelines Installation and Construction Agreement; and
- (iv) the Company's independent non-executive Directors will conduct regular reviews of the status of the transactions under the Water Supply Pipelines Installation and Construction Agreement to ensure that the Company has complied with its internal approval process, the terms of the Water Supply Pipelines Installation and Construction Agreement and the relevant requirements under the Listing Rules.

VI. INFORMATION OF THE PARTIES

Lingang Investment Group is a limited liability company established in the PRC on 26 June 2013. As at the date of this announcement, Lingang Investment Group is directly held by Xinglu Investment as to approximately 50.27%, and the remaining approximately 17.10%, 15.75%, 9.12%, 6.97%, 0.75% and 0.03% are directly held by CDB Development Fund Co., Ltd.* (國開發基金有限公司), Luzhou Construction Investment Group Co., Ltd.* (瀘州市城市建設投資集團有限公司), Luzhou Longchi Investment Co., Ltd.* (瀘州市龍馳投資有限公司), Luzhou High Tech Investment Group Co., Ltd.* (瀘州市高新投資集團有限公司), Luzhou State-owned Assets Supervision and Administration Commission* (瀘州市國有資產監督管理委員會) and Sichuan Provincial Finance Department* (四川省財政廳), respectively. The equity interests in CDB Development Fund Co., Ltd.* (國開發基金有限公司) are held by the Ministry of Finance of the PRC* (中華人民共

和國財政部) (as to approximately 36.54%), the State Council of the PRC* (中華人民共和國國務院) (as to approximately 34.68%), State Administration of Foreign Exchange Central Foreign Exchange Operations Center* (國家外匯管理局中央外匯業務中心) (as to approximately 27.19%) and the National Council for Social Security Fund of the PRC* (全國社會保障基金理事會) (as to approximately 1.59%). The equity interest in Luzhou Construction Investment Group Co., Ltd.* (瀘州市城市建設投資集團有限公司) are held by Luzhou State-owned Assets Supervision and Administration Commission* (瀘州市國有資產監督管理委員會) (as to approximately 55.98%), Xinglu Investment (as to approximately 37.80%) and Sichuan Provincial Finance Department* (四川省財政廳) (as to approximately 6.22%). The equity interests in Luzhou Longchi Investment Co., Ltd.* (瀘州市龍馳投資有限公司) are held by Luzhou State-owned Assets Supervision and Administration Commission* (瀘州市國有資產監督管理委員會) (as to 45.9%), Luzhou City Longmatan District Finance Bureau* (瀘州市龍馬潭區財政局) (as to 44.1%) and Sichuan Provincial Finance Department* (四川省財政廳) (as to 10%). The equity interests in Luzhou High Tech Investment Group Co., Ltd. *(瀘州市高新投資集團有限公司) are held by Luzhou State-owned Assets Supervision and Administration Commission* (瀘州市國有資產監督管理委員會) (as to approximately 41.40%), Luzhou Industrial Investment Group Co., Ltd., *(瀘州產業發展投資集團有限公司) (as to approximately 28.74%), Luzhou High tech Industrial Development Zone Management Committee *(瀘州高新技術產業開發區管理委員會) (as to approximately 9.47%) and the State Council of the PRC* (中華人民共和國國務院) (as to approximately 12.63%), and Sichuan Provincial Finance Department* (四川省財政廳) (as to approximately 7.76%). Lingang Investment Group is primarily engaged in investment and financing business.

To the best of Directors' knowledge, information and belief, having made all reasonable enquiries, the ultimate beneficial owners of the remaining interests of Lingang Investment Group as disclosed above are third parties independent of the Company and its connected persons.

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.

VII. REASONS FOR AND BENEFITS OF ENTERING INTO THE WATER SUPPLY PIPELINES INSTALLATION AND CONSTRUCTION AGREEMENT

The Company has been providing installation and maintenance services in its ordinary and usual course of business to companies in Luzhou City, the PRC, 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 Water Supply Pipelines Installation and Construction Agreement is beneficial for the long-term business relationship between the Company and Xinglu Investment and its controlled companies. By entering into the Water Supply Pipelines Installation and Construction Agreement, the Group can further expand its principal business. The Directors are of the view that entering into the Water Supply Pipelines Installation and Construction 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 transactions under the Water Supply Pipelines Installation and Construction Agreement are 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 its Shareholders as a whole.

The Water Supply Pipelines Installation and Construction Agreement and the transactions contemplated thereunder have been approved by the Board. None of the Directors has material interest in the Water Supply Pipelines Installation and Construction Agreement and the transactions contemplated thereunder and hence no Director is required to abstain from voting on the relevant resolution of the Board approving the same.

VIII. LISTING RULES IMPLICATIONS

As at the date of this announcement, Lingang Investment Group is directly owned around 50.27% by Xinglu Investment, the Controlling Shareholder. Accordingly, Lingang Investment Group is a connected person of the Company under the Listing Rules and the transactions contemplated under the Water Supply Pipelines Installation and Construction Agreement constitute continuing connected transactions for the Company pursuant to the Chapter 14A of the Listing Rules.

Pursuant to Rules 14A.81 and 14A.82 of the Listing Rules, the transactions contemplated under the Water Supply Pipelines Installation and Construction Agreement are required to be aggregated with other transactions contemplated under the Previous Construction Service Agreements. As each of the applicable percentage ratios (other than profits ratio) under the Listing Rules in respect of the transactions contemplated under the Water Supply Pipelines Installation and Construction Agreement and the Previous Construction Service Agreements, on an annual and aggregated basis for the past 12 months, exceeds 0.1% but is less than 5%, according to Chapter 14A of the Listing Rules, the transactions contemplated thereunder are subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

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)
“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

“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Parties”	person(s) or company(ies) which is(are) not a connected person(s) (as defined in the Listing Rules) of the Company
“Lingang Investment Group”	Luzhou Lingang Investment Group Co., Ltd.*(瀘州臨港投資集團有限公司)
“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 27 June 2022 entered into between the Company and Lingang Investment Group, the construction service agreement dated 27 June 2022 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), and the construction service agreement dated 27 June 2022 entered into between the Company and Luzhou Lingang Industrial Development Co., Ltd.* (瀘州臨港產業開發有限公司)
“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
“Water Supply Pipelines Installation and Construction Agreement”	the construction agreement entered into between the Company and Lingang Investment Group on 23 December 2022 (after trading hours)

“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
23 December 2022

As at the date of this announcement, the Board comprises of (i) three executive Directors, namely Mr. Zhang Qi, Mr. Liao Xingyue and Ms. Huang Mei; (ii) three non-executive Directors, namely Mr. Chen Bing, Mr. Yu Long and Ms. Hu Fefen; and (iii) three independent non-executive Directors, namely Ms. Ma Hua, Mr. Fu Ji and Mr. Liang Youguo.

* *For identification purposes only*