
THIS SUPPLEMENTAL CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this supplemental circular or as to the action to be taken, you should consult a 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 **Luzhou Xinglu Water (Group) Co., Ltd.***, you should at once hand this supplemental circular, together with the accompanying form of proxy and reply slip to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

泸州市興瀘水務(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)

SUPPLEMENTAL CIRCULAR

CONTINUING CONNECTED TRANSACTIONS

IN RELATION TO SLUDGE DISPOSAL SERVICES

AND

SUPPLEMENTAL NOTICE OF 2023 ANNUAL GENERAL MEETING

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



This supplemental circular should be read together with the circular of the Company dated 31 May 2024 (the “**Original Circular**”) and the notice of the AGM (the “**Original Notice**”).

A supplemental notice of convening the AGM to be held at the meeting room of 6th Floor, 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC at 9:30 a.m. on Friday, 28 June 2024 is set out on page 35 of this supplemental circular. A revised form of proxy is also enclosed with this supplemental circular, and shall supersede the form of proxy despatched to the Shareholders on 31 May 2024. You are required to complete and return the revised form(s) of proxy in accordance with the instructions printed thereon to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (in respect of H Shareholders), or to the office of the Board located at the Company’s registered office in the PRC at 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC (in respect of Domestic Shareholders) as soon as possible but in any event by not later than 24 hours before the time appointed for holding of the AGM (i.e. not later than 9:30 a.m. on Thursday, 27 June 2024) or any adjournment thereof. Completion and return of the revised form(s) of proxy shall not preclude you from attending and voting in person at the AGM or any adjourned meeting(s) if you so wish.

* *For identification purposes only*

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DEFINITIONS

Unless the context otherwise requires, the following expressions in this supplemental circular shall have the meanings set out below:

“AGM”	the annual general meeting of the Company to be held at the meeting room of 6th Floor, 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC at 9:30 a.m. on Friday, 28 June 2024 or any adjournment thereof
“Articles of Association”	the articles of association of the Company as amended, modified or otherwise supplemental from time to time
“Board”	the board of Directors of the Company
“Chairman”	the chairman of the Board of the Company
“Chongqing Derun Environment”	Chongqing Derun Environment Co., Ltd.* (重慶德潤環境有限公司), a limited liability company established on 14 October 2014 and indirectly owned as to 54.9% through Chongqing Water & Environment Holdings by Chongqing SASAC
“Chongqing Sanfeng Environment”	Chongqing Sanfeng Environment Group Co., Ltd.* (重慶三峰環境集團股份有限公司), a joint stock company with limited liability established on 4 December 2009, the shares of which are listed on the Shanghai Stock Exchange (stock code: 601827) and owned indirectly as to 32.99% through Chongqing Water & Environment Holdings by Chongqing SASAC
“Chongqing SASAC”	Chongqing State-owned Assets Supervision and Administration Commission
“Chongqing Water & Environment Holdings”	Chongqing Water & Environment Holdings Group Ltd. (重慶水務環境控股集團有限公司), a limited liability company established on 16 August 2007, and owned as to 100% by Chongqing SASAC
“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 supplemental circular, refers to the Controlling Shareholder of the Company, being Xinglu Assets
“Director(s)”	the director(s) of the Company

DEFINITIONS

“Domestic Share(s)”	the ordinary share(s) in the capital of the Company with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in RMB by PRC nationals and/or PRC legal entities
“Domestic Shareholder(s)”	the holder(s) of Domestic Shares
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas listed foreign invested ordinary share(s) in the capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in HK\$ and listed on the Stock Exchange
“H Shareholder(s)”	the holder(s) of H Shares
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee comprising Ms. Ma Hua, Mr. Fu Ji and Mr. Liang Youguo, all being the independent Directors, which is formed to advise the Independent Shareholders on the Sludge Disposal Service Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	Red Sun Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Sludge Disposal Service Agreement and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders who are not interested or involved in the Sludge Disposal Service Contract of Xinglu Environmental Protection and the transactions 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
“Latest Practicable Date”	31 May 2024, being the latest practicable date for ascertaining certain information contained in this supplemental circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Luzhou Infrastructure”	Luzhou City Infrastructure Investment Co., Ltd.* (瀘州市基礎建設投資有限公司), a limited liability company established on 29 May 2001 and owned as to approximately 61.7% by Xinglu Investment
“PRC”	the People’s Republic of China, for the purposes of this supplemental circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Service Contract”	the sludge disposal service contract entered into between Xinglu Wastewater Treatment and Xinglu Environmental Protection on 16 May 2024
“Share(s)”	the Domestic Share(s) and the H Share(s)
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianhong Partnership”	Luzhou Tianhong Phase I Industrial Investment Development Partnership (Limited Partnership)* (瀘州市天泓一期產業投資發展合夥企業(有限合夥)), a limited liability partnership established on 2 June 2015, the general partner of which is Luzhou Xinglu Equity Investment Fund Management Co., Ltd. (瀘州市興瀘股權投資基金管理有限公司), and is owned as to 100% by Xinglu Assets, the Controlling Shareholder of the Company
“Xinglu Assets”	Luzhou City Xinglu Assets Management Co., Ltd.* (瀘州市興瀘資產管理有限公司), the Controlling Shareholder of the Company, a limited liability company established on 4 September 2014, and owned as to 100% by Xinglu Investment
“Xinglu Environment”	Luzhou Xinglu Environment Group Co., Ltd. * (瀘州興瀘環境集團股份有限公司), a joint stock company with limited liability established on 26 July 2019 and a non-wholly owned subsidiary of Xinglu Investment, the Controlling Shareholder of the Company, which is directly and indirectly owned as to a total of 75% by Xinglu Investment, and is therefore a connected person (as defined in the Listing Rules) of the Company
“Xinglu Environmental Protection”	Luzhou Xinglu Environmental Protection Development Co., Ltd.* (瀘州市興瀘環保發展有限公司), a limited liability company established on 7 November 2012 and a wholly-owned subsidiary of Xinglu Environment

DEFINITIONS

“Xinglu Equity Fund”	Luzhou Xinglu Equity Investment Fund Management Co., Ltd. (瀘州市興瀘股權投資基金管理有限公司), a limited liability company established on 5 August 2016, and owned as to 100% by Xinglu Assets
“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 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)
“Xinglu Wastewater Treatment”	Luzhou Xinglu Wastewater Treatment Co., Ltd. * (瀘州市興瀘污水處理有限公司), a limited liability company established on 11 December 2000 and a non-wholly owned subsidiary of the Company

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Zhang Qi (張歧先生)
Mr. Chen Qinan (陳棋楠先生)
Mr. Xu Guanghua (徐光華先生)

Non-executive Directors:

Mr. Xu Fei (徐飛先生)
Ms. Zhang Guanghui (張光惠女士)
Ms. Hu Fenfen (胡芬芬女士)

Independent non-executive Directors:

Ms. Ma Hua (馬樺女士)
Mr. Fu Ji (傅驥先生)
Mr. Liang Youguo (梁有國先生)

Registered office:

16 Baizi Road
Jiangyang District, Luzhou
Sichuan Province
PRC

Principal place of business in Hong Kong:

40/F, Dah Sing Financial Centre
248 Queen's Road East
Wanchai, Hong Kong

7 June 2024

To the Shareholders,

Dear Sir/Madam,

SUPPLEMENTAL CIRCULAR
CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO SLUDGE DISPOSAL SERVICES
AND
SUPPLEMENTAL NOTICE OF 2023 ANNUAL GENERAL MEETING

INTRODUCTION

This supplemental circular should be read together with the circular of the Company dated 31 May 2024 (the “**Original Circular**”) and the notice of the AGM (the “**Original Notice**”).

The purpose of this supplemental circular is to give you the supplemental notice of the AGM (the “**Supplemental Notice**”, details of which are set out on page 35 of this supplemental circular), and to provide you with the following information to be proposed at the AGM, among others, (i) a letter from the

LETTER FROM THE BOARD

Board containing further information on the Sludge Disposal Service Contract; (ii) a letter from the Independent Board Committee in respect of the Sludge Disposal Service Contract; (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Service Contract; (iv) the Supplemental Notice of 2023 AGM; and (v) other information as required under the Listing Rules.

BACKGROUND

On 16 May 2024 (after trading hours), Xinglu Wastewater Treatment, a non-wholly owned subsidiary of the Company, entered into the Sludge Disposal Service Contract (the “**Service Contract**”) with Xinglu Environmental Protection, pursuant to which, Xinglu Environmental Protection agreed to provide sludge disposal services to Xinglu Wastewater Treatment.

The principal terms of the Sludge Disposal Service Contract are set out below:

Date:	16 May 2024
Parties:	(1) Xinglu Wastewater Treatment; and (2) Xinglu Environmental Protection
Subject Matter:	Provision of disposal services by Xinglu Environmental Protection for the sludge generated during the production process for Xinglu Wastewater Treatment
Term:	1 year from the date of contract signing and becoming effective, effective from the date of approval at the AGM (i.e. from 28 June to 31 December 2024 and 1 January 2025 to 27 June 2025).
Service Fee and Payment Term:	The disposal service fee under the Service Contract shall not exceed RMB33,000,000 per annum (tax inclusive), which was determined by both parties based on the agreed unit price of the sludge disposal service fee and the volume of sludge disposed.

Payments shall be made in the following manners:

Xinglu Environmental Protection shall provide to Xinglu Wastewater Treatment before the 15th day of each month a statement of the sludge disposal service fee for the previous month (including but not limited to payment instructions, daily accounts for sludge disposal) and official invoices, and Xinglu Wastewater Treatment shall make payment within 25 working days upon receipt of the payment notice by way of bank transfer

LETTER FROM THE BOARD

Pricing Policy:

When determining the service fee under the Service Contract, Xinglu Environmental Protection calculated based on the actual quantity of sludge disposed per month and the agreed unit price for the disposal, and in the ordinary and usual course of business and on normal commercial terms, and such terms and conditions were negotiated on an arm's length basis.

When determining the unit price of sludge disposal service fees, such is calculated based on the unit price range of similar services provided by independent third-party service providers from 1 January 2023 to 31 December 2023 (i.e. RMB266.95 to RMB358 per tonne, of which the Xuyong Landfill has been closed on 30 April 2024 and no longer provides relevant disposal services, the actual price of the disposal fee range used for reference is therefore RMB325.4 to RMB358 per tonne (“**2023 Service Fee Range**”)), and the unit price of sludge disposal service fee was determined to be RMB343 per tonne after arm's length negotiation. The Directors are of the view that the unit price per tonne agreed under the Service Contract is within the 2023 Service Fee Range and is therefore no less favourable to the historical transaction unit price charged by independent third-party service providers as far as the Company is concerned. It is fair and reasonable and is in the interests of all Shareholders as a whole.

HISTORICAL FIGURES

During the three years ended 31 December 2023, the Group paid no service fees to Xinglu Environmental Protection.

ANNUAL CAPS

The table below sets out the annual caps for the transactions under the Service Contract, which are calculated based on the expected maximum sludge treatment volume (the “**Expected Maximum Sludge Treatment Volume**”) determined by the aforementioned pricing policy.

Annual caps	For the year ending 31 December	
	2024	2025
	(RMB'0,000)	(RMB'0,000)
Service Contract	1,650	1,650

EXPECTED MAXIMUM SLUDGE TREATMENT VOLUME

In view of the fact that the Service Contract will take effect upon approval by the relevant Shareholders at the AGM, the 2024 annual cap is required to cover the transactions for a period of approximately six months, and the 2025 annual cap will also cover transactions for a period of approximately six months. The

LETTER FROM THE BOARD

Company generated approximately 22,500 tonnes of sludge for disposal for the three months ended 31 March 2024. Based on the Company's historical sludge generation in the past three years (i.e., 2021, 2022 and 2023), and the sufficient flexibility to cope with fluctuations that may be caused by factors such as manufacturing, agriculture, other household activities and incoming water quality, the maximum sludge treatment volume in the second half of 2024 is expected to be approximately 48,000 tonnes, and the maximum sludge volume in the first half of 2025 is expected to be approximately 48,000 tonnes.

INTERNAL CONTROL MEASURES OF THE SERVICE CONTRACT

In order to ensure the terms of the Service Contract 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) Prior to the signing of the Service Contract, Xinglu Wastewater Treatment shall approve the Service Contract in accordance with the provisions of the relevant contract management system of the Company. The legal department of the Company shall assess and analyse whether the Service Contract constitutes a connected transaction in accordance with the relevant provisions of the Listing Rules and, after confirming that it is a continuing connected transaction, Xinglu Wastewater Treatment shall submit the Service Contract to the Board of Directors of the Company for consideration and approval. The Directors of the Company then assess the unit price per tonne under the Service Contract is within the 2023 Service Fee Range and is no less favourable to the historical transaction unit price charged by independent third-party service providers as far as the Company is concerned to ensure that it is fair and reasonable and is in the interests of all Shareholders as a whole. Accordingly, the Board shall consider and approve the Service Contract and recommend the same for the approval by the Shareholders at the general meeting.
- (ii) the legal department and finance department of the Company will closely monitor the transactions under the Service Contract, which will be specifically responsible by the legal department to arrange specialized personnel to establish related transaction management accounts, and track and monitor the performance of transactions during the effective period of the contract, including monthly sludge treatment volume, fee amount and payment, etc., so as to ensure that the transaction amounts will not exceed the annual caps for the Service Contract;
- (iii) if the estimated transaction amount is expected to exceed the annual cap, the legal department will discuss with the Company's management to consider whether it is necessary to amend the annual cap based on the estimated transaction amount, and any such amendment will be subject to the approval of the Board and Independent Shareholders (if any adjustment is made to the annual cap, the Company will re-comply with the relevant requirements of Rule 14A.54 of the Listing Rules);
- (iv) the legal department of the Company will conduct regular checks to review and assess whether the transactions contemplated under the Service Contract are conducted on normal commercial terms, in accordance with the terms set out in the Service Contract, and whether the service fees and relevant contract terms are in the interest of the Company and the Shareholders as a whole;

LETTER FROM THE BOARD

- (v) the Company's external auditors will conduct an annual review of the transactions under the Service Contract to ensure that the transaction amounts are within the annual caps and the transactions are in accordance with the terms set out in the Service Contract; and
- (vi) the Company's independent non-executive Directors will conduct regular reviews of the status of the transactions under the Service Contract to ensure that the Company has complied with its internal approval process, the terms of the Service Contract and the relevant requirements under the Listing Rules.

INFORMATION ABOUT THE PARTIES

Xinglu Environmental Protection is a limited liability company established in the PRC on 7 November 2012 and is principally engaged in the business of ecological protection and environmental governance (solid waste and hazardous waste treatment), and Xinglu Investment, its ultimate beneficial owner, is principally engaged in investment and asset management, project management and investment and financial consulting business.

Xinglu Wastewater Treatment is a limited liability company established in the PRC on 11 December 2000 and a non-wholly owned subsidiary of the Company, which is principally engaged in sewage treatment and related infrastructure construction services.

REASONS FOR AND BENEFIT OF ENTERING INTO THE SERVICE CONTRACT

Xinglu Environmental Protection is currently the only organisation in the Luzhou region that can implement incineration method for sludge disposal. According to the requirements of Luzhou City to implement the rectification task list in the third round of ecological and environmental protection inspection report in Sichuan Province, the disposal of sludge by Xinglu Environmental Protection from Xinglu Wastewater Treatment will more effectively prevent the safety and environmental protection risks of Xinglu Wastewater Treatment in the production and operation process.

The Directors (including the independent non-executive Directors) are of the view that the terms of transactions under the Service Contract 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 the Shareholders as a whole.

The Service Contract and the transactions contemplated thereunder have been considered and approved by the Board. None of the Directors had material interest in the Service Contract and the transactions contemplated thereunder and hence no Director had abstained from voting on the relevant resolutions of the Board approving the same.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Xinglu Environmental Protection is 100% owned by Xinglu Environment, which in turn is directly held as to 38.35% by Xinglu Investment, the beneficial owner of Xinglu Assets, the Controlling Shareholder of the Company and indirectly held as to 36.65% through Tianhong Partnership, which is owned as to 99.5% by Xinglu Assets and as to 0.5% by Xinglu Equity Fund. Xinglu Equity Fund is

LETTER FROM THE BOARD

100% owned by Xinglu Assets, which is 100% owned by Xinglu Investment. Therefore, the ultimate beneficiary of Tianhong Partnership is Xinglu Investment. The remaining interests of Xinglu Environment are directly held as to 5% by Chongqing Derun Environment and as to 20% by Chongqing Sanfeng Environment, respectively (Chongqing Derun Environment directly holds 43.86% of the interest in Chongqing Sanfeng Environment, therefore Chongqing Derun Environment indirectly holds approximately 8.8% of the interest in Xinglu Environment through Chongqing Sanfeng Environment). Chongqing Derun Environment is owned as to 54.9% by Chongqing Water & Environment Holdings. Chongqing Sanfeng Environment is owned as to 43.86% by Chongqing Derun Environment and as to 32.99% by Chongqing Water & Environment Holdings, respectively. Chongqing Water & Environment Holdings is 100% owned by Chongqing SASAC. Therefore, the ultimate beneficiary of Chongqing Derun Environment and Chongqing Sanfeng Environment is Chongqing SASAC. Accordingly, Xinglu Environmental Protection is a connected person of the Company and the transactions contemplated under the Service Contract constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the transactions contemplated under the Service Contract (other than profit ratio) are more than 5% and less than 25%, and the absolute amount exceeds HK\$10 million, the transactions thereunder are subject to the reporting, announcement, annual review, circular and independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

SUPPLEMENTAL NOTICE OF THE AGM AND REVISED FORM OF PROXY

The AGM will be held at 9:30 a.m. on Friday, 28 June 2024 at the meeting room of 6th Floor, 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC. The Supplemental Notice of the AGM is set out on page 35 of this supplemental circular. The revised form of proxy for the AGM are enclosed herewith.

If you intend to attend the AGM by proxy, you are required to complete and return as soon as possible the enclosed revised form of proxy in accordance with the instructions printed thereon. The revised form of proxy for H Shareholders should be returned to the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and the revised form of proxy for Domestic Shareholders should be returned to the office of the Board located at the Company's registered office in the PRC at 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC by no later than 24 hours before the time appointed for convening the AGM (i.e. not later than 9:30 a.m. on Thursday, 27 June 2024) or any adjourned meeting thereof. Completion and return of the revised form of proxy will not preclude you from attending and voting at the AGM, or any adjourned meeting, in person if you so wish.

Xinglu Assets and Luzhou Infrastructure, being the connected persons of the Company and having a material interest in the Sludge Disposal Service Contract, controlled or are entitled to exercise control over the voting rights in respect of 574,363,690 Domestic Shares of the Company, representing approximately 66.8% of total issued share capital of the Company as at the Latest Practicable Date. In accordance with the Listing Rules, they will abstain from voting at the AGM on the resolution to consider and approve the continuing connected transactions in relation to sludge disposal services.

LETTER FROM THE BOARD

Save as disclosed above, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no other Shareholder has any material interest in the Service Contract, and therefore no other Shareholder is required to abstain from voting at the AGM in respect of the resolution approving the aforesaid matters. The poll results will be published on the websites of the Company and the Stock Exchange following the AGM.

CLOSURE OF REGISTER OF MEMBERS

Please refer to pages 6 to 7 of the Original Circular for the matters in relation to closure of register of members.

VOTING BY POLL

Please refer to page 7 of the Original Circular for the matters in relation to voting by poll.

RECOMMENDATION

The Board considers that all resolutions set out in the Supplemental Notice for Shareholders' consideration and approval are in the best interests of the Company and its Shareholders. As such, the Board recommends the Shareholders to vote in favor of the resolutions set out in the Supplemental Notice which are to be proposed at the AGM.

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

* *For identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

7 June 2024

To the Independent Shareholders,

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO SLUDGE DISPOSAL SERVICES
AND
SUPPLEMENTAL NOTICE OF 2023 ANNUAL GENERAL MEETING**

We refer to the supplemental circular issued by the Company dated 7 June 2024 (the “**Supplemental Circular**”) of which this letter forms a part. Unless the context otherwise requires, terms defined in the Supplemental Circular shall have the same meanings in this letter.

We have also been appointed by the Board to advise the Independent Shareholders as to whether (i) the Sludge Disposal Service Contract is on normal commercial terms or better and in the ordinary and usual course of business of the Group, and (ii) the terms of the Sludge Disposal Service Contract are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Red Sun Capital has been appointed to act as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Sludge Disposal Service Contract. The text of the letter of advice from the Independent Financial Adviser containing their recommendations and the principal factors they have taken into account in arriving at their recommendations are set out from pages 14 to 28 of the Supplemental Circular.

Having taken into account the terms of the Sludge Disposal Service Contract and the advice of the Independent Financial Adviser, we are of the opinion that (i) the Sludge Disposal Service Contract is on normal commercial terms or better and in the ordinary and usual course of business of the Group, and that (ii) the terms of the Sludge Disposal Service Contract are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We therefore recommend the Independent Shareholders to vote in favor of the relevant resolution to be proposed at the AGM to approve the Sludge Disposal Service Contract and the transactions contemplated thereunder.

For and on behalf of the
Independent Board Committee
Ms. Ma Hua Mr. Fu Ji Mr. Liang Youguo
Independent Non-Executive Directors

Luzhou, Sichuan Province, the PRC

* *For identification purposes only*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the full text of the letter from Red Sun Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Service Contract and the Proposed Annual Caps, for the purpose of inclusion in this circular.



Room 310, Floor 3,
China Insurance Group Building,
141 Des Voeux Road Central,
Hong Kong
Tel: (852) 2857 9208
Fax: (852) 2857 9100

7 June 2024

To: *The Independent Board Committee and the Independent Shareholders of
Luzhou Xinglu Water (Group) Co., Ltd.*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO SLUDGE DISPOSAL SERVICES

I. INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Service Contract and the transactions contemplated thereunder (the “**Continuing Connected Transactions**”) (including the proposed annual caps for the years ending 31 December 2024 and 2025 (the “**Proposed Annual Caps**”), details of which are contained in the letter from the Board (the “**Letter from the Board**”) as set out in the circular to the Shareholders dated 7 June 2024 (the “**Circular**”), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the Proposed Annual Caps. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

References are made to the announcement dated 16 May 2024, in relation to the Service Contract and the transactions contemplated thereunder. On 16 May 2024 (after trading hours), Xinglu Wastewater Treatment, a non-wholly owned subsidiary of the Company, entered into the Sludge Disposal Service Contract with Xinglu Environmental Protection, pursuant to which, Xinglu Environmental Protection agreed to provide sludge disposal services to Xinglu Wastewater Treatment.

As at the Latest Practicable Date, as set out in the Letter from the Board, each of Xinglu Environmental Protection, Xinglu Environment, Chongqing Sanfeng Environment, Chongqing Derun Environment, Chongqing Water & Environment Holdings is beneficially owned and/or control, directly or indirectly, by Chongqing SASAC.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, as set out in the Letter from the Board, each of Xinglu Investments, Xinglu Environment, Xinglu Environmental Protection, Xinglu Assets, Xinglu Equity Fund and Tianhong Partnership, is beneficially owned and/or control, directly or indirectly, by State-owned Assets Supervision and Administration Commission of Luzhou, being the ultimate controlling Shareholder of the Company. Accordingly, Xinglu Environmental Protection is a connected person of the Company and the transactions contemplated under the Service Contract constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules. For further details, please refer to the section headed “Listing Rules Implications” as set out in the Letter from the Board.

As the applicable percentage ratio in respect of the transactions contemplated under the Service Contract (other than profit ratio) are more than 5% and less than 25%, and the absolute amount exceeds HK\$10 million, the transactions thereunder are subject to the reporting, announcement, annual review, circular and independent shareholders’ approval requirements pursuant to Chapter 14A of the Listing Rules.

As set out in the Letter from the Board, Xinglu Assets and Luzhou Infrastructure, being the connected persons of the Company and having a material interest in the Service Contract, controlled or are entitled to exercise control over the voting rights in respect of 574,363,690 Domestic Shares of the Company, representing approximately 66.8% of total issued share capital of the Company as at the Latest Practicable Date. In accordance with the Listing Rules, they will abstain from voting at the AGM on the resolution to consider and approve the continuing connected transactions in relation to sludge disposal services.

II. THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Ma Hua, Mr. Fu Ji and Mr. Liang Youguo has been established to advise the Independent Shareholders in relation to the Service Contract and the transactions contemplated thereunder (including the Proposed Annual Caps). Red Sun Capital Limited has been appointed by the Board with the approval of the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

Our appointment has been approved by the Independent Board Committee. Our role as the independent financial adviser is to give our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Service Contract and the transactions contemplated thereunder, including the Proposed Annual Caps, as to whether (i) the terms thereunder are on normal commercial terms and fair and reasonable; and (ii) the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and how the Independent Shareholders should vote in respect of the relevant resolution to approve the transactions contemplated under the Service Contract, including the Proposed Annual Caps, at the AGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

III. OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company, Xinglu Environmental Protection and their respective shareholders, directors or chief executives, or any of their respective associates. Accordingly, we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the transactions contemplated under the Service Contract.

In the previous two years, Red Sun Capital Limited has not acted as an independent financial adviser to the Independent Board Committee and the Independent Shareholders of the Company for any transaction.

Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Group or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant from the Group to Rule 13.84 of the Listing Rules.

IV. BASIS OF OUR ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions, beliefs and representations for matters relating to the Group, the connected parties and their respective shareholders and management contained in the Circular and the information and representations provided to us by the Group and/or its senior management (the “**Management**”) and/or the Directors.

We have assumed that all such statements, information, opinions, beliefs and representations contained or referred to in the Circular (including this letter) or otherwise provided or made or given by the Group and/or the Management and/or the Directors and for which it is/they are solely and wholly responsible, were true and accurate, and valid and complete in all material respects at the time they were made and given and continue to be so as at the Latest Practicable Date.

We have assumed that all the opinions, beliefs and representations for matters relating to the Group and Xinglu Environmental Protection made or provided by the Management and/or the Directors contained in the Circular have been reasonably made after due and careful enquiry. The Company and/or the Management and/or the Directors confirmed that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have been provided with sufficient information and documents to enable us to reach an informed view and the Company has assured us no material information has been withheld from us to allow us to reasonably rely on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions, beliefs and representations provided to us by the Group and/or the Management and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have not, however, carried out any independent verification nor have we conducted any independent investigation into information provided by the Directors and the Management, background, business or affairs or future prospects of the Group, Xinglu Environmental Protection and, where applicable, their respective shareholder(s) and subsidiaries or affiliates, and their respective history, experience and track records, or the prospects of the markets in which they respectively operate.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Service Contract and the transactions contemplated thereunder, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent. In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

V. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following principal factors and reasons:

1. Information of the Group

1.1 Background information of the Group

The Group is principally engaged in tap water supply and wastewater treatment.

1.2 Overview of the historical financial information of the Group

With a view to provide background information on the historical financial performance of the Group, we set out the following financial information of the Group as extracted and summarised from the annual results announcement and annual report of the Group for the year ended 31 December 2023 (the “**2023 Annual Report**”).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Summary of the Group's consolidated balance sheet

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Current assets	1,304,524	1,489,176
– Monetary funds	390,505	609,756
– Accounts receivable	563,915	526,385
Non-current assets	5,750,262	5,651,392
– Fixed assets	3,334,920	3,381,791
– Intangible assets	1,537,620	1,396,699
Current liabilities	1,500,662	1,272,823
– Accounts payable	417,137	376,117
– Non-current liabilities		
due within one year	569,614	216,717
Non-current liabilities	2,541,491	3,026,725
– Long-term borrowings	1,465,304	1,920,928
Total equity attributable to shareholders of the parent company	2,798,549	2,636,130

Note: for the avoidance of doubt, only selected major asset and liability balances are disclosed in the table above

Financial position of the Group as at 31 December 2023 compared to 31 December 2022

We noted from the 2023 Annual Report that as at 31 December 2023, the Group's total assets amounted to approximately RMB7,054.8 million, representing a decrease of approximately RMB85.8 million as compared to approximately RMB7,140.6 million as at 31 December 2022, which mainly comprised (i) fixed assets of approximately RMB3,334.9 million; (ii) intangible assets of approximately RMB1,537.6 million; (iii) accounts receivable of approximately RMB563.9 million; and (iv) monetary funds of approximately RMB390.5 million.

The Group's total liabilities amounted to approximately RMB4,042.2 million as at 31 December 2023, representing a decrease of approximately RMB257.3 million as compared to approximately RMB4,299.5 million as at 31 December 2022, which mainly comprised (i) long-term borrowings of approximately RMB1,465.3 million; (ii) non-current liabilities due within one year of approximately RMB569.6 million; and (iii) accounts payable of approximately RMB417.1 million.

As at 31 December 2023, the total equity attributable to shareholders of the parent company amounted to approximately RMB2,798.5 million, as compared to approximately RMB2,636.1 million as at 31 December 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Summary of the Group's consolidated income statement

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Total operating revenue	1,286,434	1,353,419
– Water supply business	384,719	411,069
– Wastewater treatment business	607,255	523,978
– Engineering business	256,823	359,487
– Others	37,636	58,886
Total operating cost	1,075,970	1,135,261
Operating profit	268,577	254,020
Total profit	262,521	256,756
Income tax expense	38,608	33,516
Net Profit	223,913	223,241

Financial performance of the Group for the years ended 31 December 2023 (“FY2023”) and 31 December 2022 (“FY2022”)

As set out in the 2023 Annual Report, the Group recorded total operating revenue of approximately RMB1,286.4 million for FY2023, representing a decrease of approximately RMB67.0 million or approximately 4.9% compared to approximately RMB1,353.4 million for FY2022. The decrease was mainly due to the decrease in the revenue from tap water and engineering installment. The total operating revenue of the Group was mainly generated from (i) water supply business amounted to approximately RMB384.7 million, representing a decrease of approximately RMB26.4 million or approximately 6.4% compared to approximately RMB411.1 million for FY2022 which was mainly due to decrease in the comprehensive unit price of water sales as a result of proportional decrease in the non-resident domestic water with higher unit price under the changed structure of water sales; (ii) wastewater treatment business amounted to approximately RMB607.3 million, representing an increase of approximately RMB83.3 million or approximately 15.9% compared to approximately RMB524.0 million for FY2022 which was mainly due to the increase in wastewater treatment volume and an additional revenue from wastewater treatment of Leshan Jingyan as a result of business expansion; and (iii) engineering business segment amounted to approximately RMB256.8 million for FY2023, representing a decrease of approximately RMB102.7 million or approximately 28.6% compared to approximately RMB359.5 million for FY2022 which was mainly due to the downward adjustment of tariff policy and the decrease in engineering installation projects.

The total operating cost of the Group decreased of approximately 5.2% from approximately RMB1,135.3 million for FY2022 to approximately RMB1,076.0 million for FY2023 and the operating profit of the Group increased of approximately 5.7% from approximately RMB254.0 million for FY2022 to approximately RMB268.6 million for FY2023.

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The Group recorded total profit and net profit of approximately RMB262.5 million and approximately RMB223.9 million for FY2023, respectively.

2. Information about the parties

2.1 *Xinglu Wastewater Treatment*

Xinglu Wastewater Treatment is a limited liability company established in the PRC on 11 December 2000 and a non-wholly owned subsidiary of the Company, which is principally engaged in sewage treatment and related infrastructure construction services.

2.2 *Xinglu Environmental Protection*

Xinglu Environmental Protection is a limited liability company established in the PRC on 7 November 2012 and is principally engaged in the business of ecological protection and environmental governance (solid waste and hazardous waste treatment), and Xinglu Investment is principally engaged in investment and asset management, project management and investment and financial consulting business.

For further details, please refer to the section headed “Listing Rules Implications” as set out in the Letter from the Board.

3. Reasons for and benefits of the Service Contract

As set out in the Letter from the Board, Xinglu Environmental Protection is currently the only organisation in the Luzhou region that can implement incineration method for sludge disposal. According to the requirements of Luzhou City to implement the rectification task list in the third round of ecological and environmental protection inspection report in Sichuan Province, the disposal of sludge by Xinglu Environmental Protection from Xinglu Wastewater Treatment will more effectively prevent the safety and environmental protection risks of Xinglu Wastewater Treatment in the production and operation process.

Having considered the Company’s reasons for and benefits of the Service Contract as set out above together with factors, including, among others,

- (i) the principal business activities of the Group, namely, tap water supply and wastewater treatment;
- (ii) Xinglu Wastewater Treatment is principally engaged in sewage treatment and related infrastructure construction services;
- (iii) Xinglu Environmental Protection is currently the only organisation in the Luzhou region that can implement incineration method for sludge disposal; and

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- (iv) the Service Contract, if approved, will facilitate the sludge disposal services to be carried out in an efficient and effective manner without the need for the Company to seek Independent Shareholders' approval on a transaction-by-transaction basis,

we concur with the Directors' view that the Service Contract are entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

4. Principle terms of the Service Contract

- Date:** 16 May 2024 (after trading hours)
- Parties:** (1) Xinglu Wastewater Treatment; and
(2) Xinglu Environmental Protection.
- Subject Matter:** Provision of disposal services by Xinglu Environmental Protection for the sludge generated during the production process for Xinglu Wastewater Treatment.
- Term:** 1 year from the date of contract signing and becoming effective, effective from the date of approval at the AGM (i.e. from 28 June to 31 December 2024 and 1 January 2025 to 27 June 2025).
- Service Fee and Payment Term:** The disposal service fee under the Service Contract shall not exceed RMB33,000,000 per annum (tax inclusive), which was determined by both parties based on the agreed unit price of the sludge disposal service fee and the volume of sludge disposed.

Payments shall be made in the following manners:

Xinglu Environmental Protection shall provide to Xinglu Wastewater Treatment before the 15th day of each month a statement of the sludge disposal service fee for the previous month (including but not limited to payment instructions, daily accounts for sludge disposal) and official invoices, and Xinglu Wastewater Treatment shall make payment within 25 working days upon receipt of the payment notice by way of bank transfer.

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Pricing Policy:

When determining the service fee under the Service Contract, Xinglu Environmental Protection calculated based on the actual quantity of sludge disposed per month and the agreed unit price for the disposal, and in the ordinary and usual course of business and on normal commercial terms, and such terms and conditions were negotiated on an arm's length basis.

When determining the unit price of sludge disposal service fees, such is calculated based on the unit price range of similar services provided by independent third-party service providers from 1 January 2023 to 31 December 2023 (i.e. RMB266.95 to RMB358 per tonne, of which the Xuyong Landfill has been closed on 30 April 2024 and no longer provides relevant disposal services, the actual price of the disposal fee range used for reference is therefore RMB325.4 to RMB358 per tonne), and the unit price of sludge disposal service fee was determined to be RMB343 per tonne after arm's length negotiation. The Directors are of the view that the unit price per tonne agreed under the Service Contract is within the 2023 Service Fee Range and is therefore no less favourable to the historical transaction unit price charged by independent third-party service providers as far as the Company is concerned. It is fair and reasonable and is in the interests of all Shareholders as a whole.

5. Our analysis on the principal terms of the Service Contract and work performed on the internal control procedures

With a view to assess the fairness and reasonableness of the principal terms of the Service Contract, we have carried out the following work and analysis.

5.1 Our analysis on the pricing policy for the Service Contract

We noted from the pricing policy under the Service Contract that the service fee was calculated based on the actual quantity of sludge disposed per month and the agreed unit price for the disposal, and such terms and conditions were negotiated on an arm's length basis.

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With a view to assess the reasonableness of the pricing policy, we have performed the following work and analysis:

- (i) we have obtained from the Management a document setting out the unit price per tonne charged by independent third party service providers for the provision of disposal services during the year ended 31 December 2023, the scope of services of which is similar to the disposal services under the Service Contract;
- (ii) as confirmed by the Group, similar scope of work and services were provided by five groups of independent third party service providers to the Group, representing all of the service providers which provided relevant sludge disposal services to the Wastewater Treatment Plants (defined hereafter) of Xinglu Wastewater Treatment during the year ended 31 December 2023, we have obtained the relevant signed contract(s) and supporting document(s) for the aforesaid five groups of independent third party service providers and that the lowest and highest unit price per tonne, being RMB266.95¹ per tonne to RMB358 per tonne. However, if we exclude the unit price per tonne associated with the service provider which has since ceased its operations in 2024, the lowest and highest unit price per tonne would be from approximately RMB325.4 per tonne to RMB358 per tonne (the “**2023 Service Fee Range**”). Given we have obtained the signed contract(s) and supporting document(s) for all of the five relevant groups of independent third party service providers, the samples selected are fair and representative; and
- (iii) based on our review of the Service Contract, we noted that the agreed unit price per tonne of RMB343 for the provision of disposal services by Xinglu Environmental Protection under the Service Contract is broadly in line with the mid-point of the 2023 Service Fee Range and within the range of the 2023 Service Fee Range. On this basis, the agreed unit price per tonne under the Service Contract is not less favourable to the Company than the historical transacted unit price per tonne charged by independent third party service providers, and is therefore considered to be fair and reasonable.

5.2 Our analysis on the payment terms for the Service Contract

For our assessment on the reasonableness of the payment terms, we have obtained and reviewed transactions in relation to the provision of disposal services by independent third party service providers for the Group during the year ended 31 December 2023 and noted that the payment terms of such services ranged from one week in advance to 25 business days from the relevant invoice date/payment notice.

¹ For information purposes only, as advised by the Management and according to the documents obtained, the operations of the subject service provider has ceased since 30 April 2024.

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We noted that the payment terms offered by the Xinglu Environmental Protection to Xinglu Wastewater Treatment is 25 business days upon receipt of the payment notice. On this basis, the payment terms under the Service Contract is not less favourable than those payments terms with independent third parties for similar services.

5.3 *Our work performed on the internal control procedures for the Service Contract*

We noted that the Group has adopted the following internal control measures to ensure that the terms of the continuing connected transactions under the Service Contract are fair and reasonable:

- (i) prior to the signing of the Service Contract, Xinglu Wastewater Treatment shall approve the Service Contract in accordance with the provisions of the relevant contract management system of the Company. The legal department of the Company shall assess and analyse whether the Service Contract constitutes a connected transaction in accordance with the relevant provisions of the Listing Rules and, after confirming that it is a continuing connected transaction, Xinglu Wastewater Treatment shall submit the Service Contract to the Board of Directors of the Company for consideration and approval. The Directors of the Company then assess the unit price per tonne under the Service Contract is within the 2023 Service Fee Range and is no less favourable to the historical transaction unit price charged by independent third-party service providers as far as the Company is concerned to ensure that it is fair and reasonable and is in the interests of all Shareholders as a whole. Accordingly, the Board shall consider and approve the Service Contract and recommend the same for the approval by the Shareholders at the general meeting;
- (ii) the legal department and finance department of the Company will closely monitor the transactions under the Service Contract, which will be specifically responsible by the legal department to arrange specialized personnel to establish related transaction management accounts, and track and monitor the performance of transactions during the effective period of the contract, including monthly sludge treatment volume, fee amount and payment, etc., so as to ensure that the transaction amounts will not exceed the annual caps for the Service Contract;
- (iii) if the estimated transaction volume is expected to exceed the annual cap, the legal department will discuss with the Company's management to consider whether it is necessary to amend the annual cap based on the estimated transaction amount, and any such amendment will be subject to the approval of the Board and Independent Shareholders (if any adjustment is made to the annual cap, the Company will re-comply with the relevant requirements of Rule 14A.54 of the Listing Rules);

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- (iv) the legal department of the Company will conduct regular checks to review and assess whether the transactions contemplated under the Service Contract are conducted on normal commercial terms, in accordance with the terms set out in the Service Contract, and whether the service fees and relevant contract terms are in the interest of the Company and the Shareholders as a whole;
- (v) the Company's external auditors will conduct an annual review of the transactions under the Service Contract to ensure that the transaction amounts are within the annual caps and the transactions are in accordance with the terms set out in the Service Contract; and
- (vi) the Company's independent non-executive Directors will conduct regular reviews of the status of the transactions under the Service Contract to ensure that the Company has complied with its internal approval process, the terms of the Service Contract and the relevant requirements under the Listing Rules.

In this connection, we have conducted the following work, including,

- (i) obtained and reviewed the relevant documents and approval record by authorised personnel, including of the relevant department, the general manager and the chairman of the board of Xinglu Wastewater Treatment for the procurement of services under the Service Contract;
- (ii) obtained and reviewed the approval record by the executive Directors of the Company for the Service Contract;
- (iii) obtained the relevant internal policies, including, the management of connected transactions guidelines* (關聯交易管理工作實施細則) adopted by the Company setting out that the legal department and finance department of the Company will monitor the connected transactions to ensure that the transaction amounts will not exceed the respective annual caps;
- (iv) reviewed the report prepared by the Company's external auditors setting out that they have conducted an annual review of the continuing connected transactions for the year ended 31 December 2023 to ensure that the transaction amounts are within the respective annual caps and the transactions are in accordance with the terms set out in the respective agreement(s); and
- (v) reviewed the supporting documents and the 2023 Annual Report and noted that the Company's independent non-executive Directors have reviewed the relevant historical continuing connected transactions and concluded that the Company has complied with its relevant internal approval process and the relevant requirements under the Listing Rules.

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Based on the documents reviewed and as confirmed by the Management, we are of the view that the abovementioned relevant internal control procedures are in place and have been carried out by the Company and that the effective implementation of such internal control procedures shall ensure the reasonableness of the relevant transactions.

5.4 *Our findings*

Having considered the work performed by us as set out above, in particular, our work performed on the principal terms of the Service Contract, including our analysis on the pricing policies, payment terms and internal control procedures in connection with the Continuing Connected Transactions, we considered that the terms of the Service Contract, which are subject to the relevant internal control procedures, to be fair and reasonable and in the interests of the Shareholders as a whole.

6. **Basis and rationale for determining the Proposed Annual Caps**

As set out in the Letter from the Board, the Proposed Annual Caps for the transactions under the Service Contract are calculated based on the expected maximum sludge treatment volume determined by the aforementioned pricing policy.

Our analysis on the Proposed Annual Caps

The Proposed Annual Caps under the Service Contract for the two years ending 31 December 2024 and 2025 is set out as follows:

		For the year ending 31 December	
		2024	2025
		<i>RMB'000</i>	<i>RMB'000</i>
		16,500	16,500
Proposed Annual Caps	(the “ 2024 Annual Cap ”)		(the “ 2025 Annual Cap ”)

With a view to assess the fairness and reasonableness of the basis of the Proposed Annual Caps, we have obtained and reviewed a schedule prepared by the Management setting out the basis of the Proposed Annual Caps which was mainly attributable to, among others, (i) the seven wastewater treatment plants operated by the Group in Luzhou (the “**Wastewater Treatment Plants**”) of which would require the disposal services under the Service Contract; (ii) the estimated tonnage of sludge to be produced by each of the Wastewater Treatment Plants during the duration of the Service Contract; and (iii) the estimated transaction amount by taking into account the agreed unit price per tonne and the tonnage of sludge under (ii) above.

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Our analysis on the 2024 Annual Cap and 2025 Annual Cap

We have considered that (i) the Service Contract shall become effective after the relevant Shareholders' approval has been obtained, on this basis, the 2024 Annual Cap shall cover transactions for a period of around six months. In this connection, the 2025 Annual Cap shall also cover transactions for a period of around six months; (ii) we have obtained from the Management the total tonnage of sludge generated by the Wastewater Treatment Plants that were subject to disposal service during the three months ended 31 March 2024, being in the region of 22,500 tonnes (the "2024Q1 Historical Tonnage"). As part of our work performed on the 2024Q1 Historical Tonnage, we have obtained from the Management a schedule setting out a breakdown of sludge disposed in tonnes by the Wastewater Treatment Plants operated by the Group during the first quarter of 2024 and cross-checked the weight in tonnes of the sludge disposed by the Wastewater Treatment Plants for the first quarter of 2024 as set out in the internal monthly operating status reporting documents* (運行狀況月統計表) of the Group for the disposal of sludge. Based on the 2024Q1 Historical Tonnage, the estimated tonnage of sludge for a period of six months would be in the region 45,000 tonnes; (iii) as advised by the Management, the agreed unit price per tonne is RMB343; (iv) based on (a) the aforesaid estimated tonnage of 45,000 tonnes to be subject to disposal service from the effective date of the Service Contract up to and including 31 December 2024 (i.e. being around six months); and (b) the agreed unit price, such would represent over 90% of the 2024 Annual Cap and 2025 Annual Cap; and (v) we have also considered the historical fluctuation between the first and second half of a calendar year based on the historical information of the disposed sludge as provided by the Management and reviewed by us, in general, in the past three years (i.e. 2021, 2022 and 2023), the first half of a subject calendar year produces in the region of 12% to 32% more sludge than the second half of the same calendar year, nonetheless given the volume of wastewater that requires to be treated and the resultant mass of sludge may fluctuate subject to, among others, the manufacturing, agricultural, other domestic activities as well as the incoming water quality at the material time, and that these factors are beyond the Group's control, therefore the Proposed Annual Caps should have sufficient flexibility to cater for these factors and the associated fluctuations to avoid circumstances of a possible pile up of undisposed sludge which may cause adverse social and environmental impact. On this basis, we are of the view that the basis of the 2024 Annual Cap and 2025 Annual Cap is reasonable, respectively.

VI. RECOMMENDATION

Having considered the factors as set out in this letter above, in particular,

- (i) the reasons for and benefits of the Service Contract;
- (ii) the transactions contemplated under the Service Contract shall be conducted in the ordinary and usual course of business of the Group and on normal commercial terms, to be governed by the relevant internal control procedures and in accordance with the pricing policies; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) the basis for determining the Proposed Annual Caps under the Service Contract is reasonable, details of which are set out under the section headed “6. Basis and rationale for determining the Proposed Annual Caps” in connection with the Service Contract in this letter above,

we are of the view that the transactions contemplated under the Service Contract, are in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and the terms of the Service Contract, including the Proposed Annual Caps, are fair and reasonable so far as the Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, that the Independent Shareholders to vote in favour of the relevant ordinary resolution to approve the Service Contract (including the Proposed Annual Caps) at the AGM.

Yours faithfully
For and on behalf of
Red Sun Capital Limited
Lewis Lai
Managing Director

Mr. Lewis Lai is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 17 years of experience in the corporate finance industry.

* *for identification purposes only*

1. RESPONSIBILITY STATEMENT

This supplemental 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 supplemental 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 in this supplemental circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Substantial shareholders' interests and short position in Shares and underlying Shares

As at the Latest Practicable Date, to the best knowledge of the Company, the following persons (other than the Directors, Supervisors and chief executive of the Company) had interests or short positions in the Shares or underlying Shares and/or debentures of the Company which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required by Section 336 of the SFO to be recorded in the register of the Company, or owned interests and short positions in more than 5% of any class of issued shares of the Company:

Name of Shareholder	Shareholding capacity	Class of Shares	Number of Shares ⁽¹⁾	Approximate percentage in class of Shares issued	Approximate percentage in total Shares issued
Xinglu Assets ⁽²⁾	Beneficial owner	Domestic Shares	511,654,127(L)	79.35%	59.52%
Luzhou Infrastructure ⁽³⁾	Beneficial owner	Domestic Shares	62,709,563(L)	9.73%	7.29%
	Interest in a controlled corporation	Domestic Shares	511,654,127(L)	79.35%	59.52%
Xinglu Investment	Interest in a controlled corporation	Domestic Shares	62,709,563(L)	9.73%	7.29%
Luzhou Laojiao Group Co., Ltd.	Beneficial owner	Domestic Shares	70,406,310(L)	10.92%	8.19%
Beijing Enterprises Water Group Limited ⁽⁴⁾	Beneficial owner	H Shares	71,150,000(L)	33.10%	8.28%
Beijing Enterprises Environmental Construction Limited ⁽⁴⁾	Interest in a controlled corporation	H Shares	71,150,000(L)	33.10%	8.28%
Beijing Enterprises Holdings Limited ⁽⁴⁾	Interest in a controlled corporation	H Shares	71,150,000(L)	33.10%	8.28%
Beijing Enterprises Group (BVI) Company Limited ⁽⁴⁾	Interest in a controlled corporation	H Shares	71,150,000(L)	33.10%	8.28%
Beijing Enterprises Group Company Limited	Interest in a controlled corporation	H Shares	71,150,000(L)	33.10%	8.28%
Sichuan Sans Venture Capital Co., Ltd. ⁽⁶⁾	Beneficial owner	H Shares	19,247,000(L)	8.95%	2.24%

Name of Shareholder	Shareholding capacity	Class of Shares	Number of Shares ⁽¹⁾	Approximate percentage in class of Shares issued	Approximate percentage in total Shares issued
Suntront Intelligence (Hong Kong) Co., Ltd. ⁽⁵⁾	Beneficial owner	H Shares	16,884,000(L)	7.86%	1.96%
	Interest in a controlled corporation	H Shares	16,884,000(L)	7.86%	1.96%
Suntront Tech Co., Ltd. ⁽⁵⁾	Beneficial owner	H Shares	16,884,000(L)	7.86%	1.96%
	Interest in a controlled corporation	H Shares	16,884,000(L)	7.86%	1.96%
Fei Zhanbo ⁽⁵⁾	Beneficial owner	H Shares	14,635,000(L)	6.81%	1.70%
Luzhou Xiangyang Real Estate Development Co., Ltd. ⁽⁶⁾	Beneficial owner	H Shares	14,635,000(L)	6.81%	1.70%
Yang Lunfen ⁽⁶⁾	Beneficial owner	H Shares	14,635,000(L)	6.81%	1.70%
Wang Xiumei ⁽⁶⁾	Beneficial owner	H Shares	14,635,000(L)	6.81%	1.70%
Yang Bin ⁽⁶⁾	Beneficial owner	H Shares	14,635,000(L)	6.81%	1.70%
Hwabao Trust Co., Ltd. ⁽⁶⁾	Trustee	H Shares	77,787,000(L)	36.19%	9.05%
Hwabao • Overseas Market Investment II (37-1 QDII Single Fund Trust) ⁽⁶⁾	Trustee	H Shares	19,247,000(L)	8.95%	2.24%
Hwabao • Overseas Market Investment II (20-14 QDII Single Fund Trust) ⁽⁶⁾	Trustee	H Shares	14,635,000(L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (37-3 QDII Single Fund Trust) ⁽⁶⁾	Trustee	H Shares	14,635,000(L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (37-4 QDII Single Fund Trust) ⁽⁶⁾	Trustee	H Shares	14,635,000(L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (20-15 QDII Single Fund Trust) ⁽⁶⁾	Trustee	H Shares	14,635,000(L)	6.81%	1.70%

(1) As at the Latest Practicable Date, the Company had issued totally 859,710,000 Shares, including 644,770,000 Domestic Shares and 214,940,000 H Shares. (L) represents long position.

(2) Xinglu Investment has 100% interests in Xinglu Assets. Therefore, pursuant to the SFO, Xinglu Investment is deemed to be interested in the Domestic Shares held by Xinglu Assets.

(3) Xinglu Investment has 61.70% interests in Luzhou Infrastructure. Therefore, pursuant to the SFO, Xinglu Investment is deemed to be interested in the Domestic Shares held by Luzhou Infrastructure.

(4) Beijing Enterprises Water Group Limited is held by Beijing Enterprises Environmental Construction Limited as to 41.12%, which is in turn wholly-owned by Beijing Enterprises Holdings Limited, which is held as to 41.06% by Beijing Enterprises Group (BVI) Company Limited, which is held as to 100% by Beijing Enterprises Group Company Limited. Therefore, pursuant to the SFO, all of Beijing

Enterprises Environmental Construction Limited, Beijing Enterprises Holdings Limited, Beijing Enterprises Group (BVI) Company Limited and Beijing Enterprises Group Company Limited are deemed to be interested in H Shares held by Beijing Enterprises Water Group Limited.

- (5) Suntront Tech Co., Ltd. has 100% interests in Suntront Intelligence (Hong Kong) Co., Ltd. Fei Zhanbo has 35.68% interests in Suntront Tech Co., Ltd. Therefore, pursuant to the SFO, Suntront Tech Co., Ltd. and Fei Zhanbo are deemed to be interested in H Shares held by Suntront Intelligence (Hong Kong) Co., Ltd.
- (6) Sichuan Sans Venture Capital Co., Ltd. holds a total of 19,247,000 H Shares through a trust named “Hwabao • Overseas Market Investment II (37-1 QDII Single Fund Trust)” managed by Hwabao Trust Co., Ltd.; Luzhou Xiangyang Real Estate Development Co., Ltd. holds a total of 14,635,000 H Shares through a trust named “Hwabao • Overseas Market Investment II (20-14 QDII Single Fund Trust)” managed by Hwabao Trust Co., Ltd.; Yang Lunfen holds a total of 14,635,000 H Shares through a trust named “Hwabao • Overseas Market Investment II (37-3 QDII Single Fund Trust)” managed by Hwabao Trust Co., Ltd.; Wang Xiumei holds a total of 14,635,000 H Shares through a trust named “Hwabao • Overseas Market Investment II (37-4 QDII Single Fund Trust)” managed by Hwabao Trust Co., Ltd.; and Yang Bin holds a total of 14,635,000 H Shares through a trust named “Hwabao • Overseas Market Investment II (20-15 QDII Single Fund Trust)” managed by Hwabao Trust Co., Ltd. Pursuant to the SFO, Hwabao Trust Co., Ltd., acting as the trustee for the above-mentioned trusts, is deemed to be interested in the aggregate 77,787,000 H Shares with interests owned by such trusts. None of the Hwabao • Overseas Market Investment II (37-1 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (20-14 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (37-3 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (37-4 QDII Single Fund Trust) and Hwabao • Overseas Market Investment II (20-15 QDII Single Fund Trust) has any interests and/or short positions in the Company which are required to be notified to the Company or the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, to the best knowledge of the Company, as at the Latest Practicable Date, no person (other than the Directors, Supervisors and chief executives of the Company) informed the Company that they had interests and/or short positions in the Share and (in respect of positions held pursuant to equity derivatives) underlying Shares and/or debentures of the Company which were required to be notified to the Company or the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required by Section 336 of the SFO to be recorded in the register specified in the section.

(b) Interests and short positions of Directors, Supervisors and chief executive in the Shares, underlying Shares and debentures

As at the Latest Practicable Date, none of the Directors, Supervisors or chief executive had any interests and/or short positions in the Shares, and (in respect of positions held pursuant to equity derivatives) underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which should be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or was required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or was required, pursuant to the Model Code to be notified to the Company and Hong Kong Stock Exchange.

(c) **Other positions of Directors**

As at the Latest Practicable Date, none of our Directors is a director or employee of a company which has an interest or short position in the Shares and underlying shares of the Group which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates had any interest in any business, which competes or may compete, either directly or indirectly, with the business of the Group as if each of them were treated as a controlling shareholder of the Company under Rule 8.10 of the Listing Rules.

4. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2023, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

5. DIRECTORS' INTERESTS IN CONTRACTS

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting and which is significant in relation to the business of the Group.

6. DIRECTORS' INTERESTS IN SERVICE CONTRACTS

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

7. EXPERT AND CONSENT

The following is the qualifications of the expert who has given an opinion or advice, which is contained or referred to in this supplemental circular:

Name	Qualifications
Red Sun Capital	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Red Sun Capital did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Red Sun Capital did not have any direct or indirect interest in any assets which have been, since 31 December 2023, being the date to which the latest published audited financial statements of the Company 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.

As at the Latest Practicable Date, Red Sun Capital has given and has not withdrawn its written consent to the issue of this supplemental circular with the inclusion of its letter in connection with their advice to the Independent Board Committee and the Independent Shareholders, and/or reference to its name and opinion in the form and context in which it appears.

8. LITIGATION

There was no litigation or claim of material importance pending or threatened against any member of the Group as at the Latest Practicable Date.

9. MATERIAL ADVERSE CHANGE

The Directors confirm that, 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 2023, being the date to which the latest published audited consolidated financial statements of the Company were made up.

10. 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 (<http://www.lzss.com>) for the period of 14 days commencing from the date of this supplemental circular:

- (a) the letter from the Independent Board Committee, the text of which is set out in the section headed “Letter from the Independent Board Committee” of this supplemental circular;
- (b) the letter from the Independent Financial Adviser in respect of their advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Financial Adviser” of this supplemental circular;
- (c) the Sludge Disposal Service Contract; and
- (d) the written consent from Red Sun Capital referred to in the section headed “7. Expert and Consent” in this Appendix.

11. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Chen Yongzhong (陳永忠先生).
- (b) The head office and registered office of the Company is located 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC. The principal place of business of the Company in Hong Kong is located at 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong.
- (c) The H share registrar of the Company is Computershare Hong Kong Investor Services Limited located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) To the extent that there are any inconsistencies between the English version and the Chinese version of this supplemental circular, the Chinese version shall prevail.

SUPPLEMENTAL NOTICE OF THE AGM



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)

SUPPLEMENTAL NOTICE OF 2023 ANNUAL GENERAL MEETING

Reference is made to the notice of the annual general meeting (the “**Original Notice**”) of Luzhou Xinglu Water (Group) Co., Ltd.* (the “**Company**”) dated 31 May 2024, which sets out details of the annual general meeting (the “**AGM**”) to be held at the meeting room of 6th Floor, 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC at 9:30 a.m. on 28 June 2024. This supplemental notice shall be read together with the Original Notice. Apart from the additional resolution set out below, all the information contained in the Original Notice remains valid and effective.

SUPPLEMENTAL NOTICE IS HEREBY GIVEN that the AGM will be held as originally scheduled, to consider and, if thought fit, approve the following resolution as an ordinary resolution of the Company, in addition to the resolutions set out in the Original Notice:

ORDINARY RESOLUTION

9. To consider and approve the continuing connected transactions in relation to sludge disposal services.

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

Luzhou, Sichuan Province, the PRC
7 June 2024

Notes:

1. A revised form of proxy (the “**Revised Proxy Form**”) is enclosed with the supplemental circular of the Company dated 7 June 2024. Please refer to the section headed “**Supplemental Notice of the AGM and Revised Form of Proxy**” on pages 10 to 11 of the supplemental circular of the Company dated 7 June 2024 for the arrangements regarding the completion and submission of the Revised Proxy Form.
2. Please refer to the Original Notice for details of the other resolutions to be considered at the AGM and other relevant matters.

* *For identification purposes only*