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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)

BUSINESS UPDATE

ENTERING INTO THE PPP PROJECT AGREEMENT

IN RESPECT OF LITANG COUNTY WASTEWATER TREATMENT PROJECT

The Board is pleased to announce that on 26 October 2022 (after trading hours), Litang County House and Urban-Rural Development Bureau* (理塘縣住房和城鄉建設局), Guizhou Zhongbailun Construction Engineering Co., Ltd.*(貴州中柏倫建築工程有限公司) (“**Guizhou Zhongbailun**”) and the Company, after the completion of a public tender process, entered into the PPP Project Agreement in respect of the PPP Project in Litang County, Ganzi Tibetan Autonomous Prefecture, Sichuan Province, the PRC.

This announcement is made by the Company to keep the shareholders and potential investors of the Company informed of the latest business development of the Group.

I. INTRODUCTION

The Board is pleased to announce that on 26 October 2022 (after trading hours), Litang County House and Urban-Rural Development Bureau, Guizhou Zhongbailun and the Company, after the completion of a public tender process, entered into the PPP Project Agreement in respect of the PPP Project in Litang County, Ganzi Tibetan Autonomous Prefecture, Sichuan Province, the PRC.

The PPP Project will be carried out through the public-private-partnership (commonly known as “**PPP**”) model, which is an emerging cooperation model, supported by national policies, for the public and private sectors to work together under the leadership of the relevant PRC local government. While the PPP model typically involves the use of private sector capital in public sector works, there is no fixed cooperation model, as the extent and nature of the private sector’s involvements are driven by the requirements of the local government concerned.

II. THE PPP PROJECT AGREEMENT

The principle terms of PPP Project Agreement are set out below:

Date: 26 October 2022 (after trading hours)

Parties:

- (1) Litang County House and Urban-Rural Development Bureau;
- (2) the Company; and
- (3) Guizhou Zhongbailun (the Company and Guizhou Zhongbailun together referred to as the “**Consortium**”)

Principle terms: Pursuant to the PPP Project Agreement, the Consortium shall establish the Project Company in Litang County, Ganzi Tibetan Autonomous Prefecture, Sichuan Province, the PRC, within fifteen (15) calendar days after the execution of the PPP Project Agreement. The registered capital of the Project Company, which amounts to approximately RMB48.2 million, shall be paid up in one lump sum by all parties according to their respective shareholding percentage in the Project Company within fifteen (15) business days after the establishment of the Project Company. The Project Company shall enter into a supplemental agreement with the Litang County House and Urban-Rural Development Bureau within ten (10) business days after its establishment to succeed the relevant rights and obligations of the Consortium under the PPP Project Agreement.

During the cooperation period as set out in the PPP Project Agreement, the Project Company shall be responsible for, among other things, the investment and financing, construction, operation, maintenance and handover in respect of the wastewater treatment plants and pipeline network of the PPP Project, and shall be entitled to charge wastewater treatment service fee, pipeline network service fee and other fees according to the billing and payment mechanism under the PPP Project Agreement.

The cooperation period consists of (i) construction period of the PPP Project, being two (2) years commencing from the effective date of the PPP Project Agreement; and (ii) operation period, being twenty (20) years for near-term project (Phase I of the PPP Project) and eighteen (18) years for long-term project (Phase II of the PPP Project), both commencing from the operation date approved by Litang County House and Urban-Rural Development Bureau.

After the expiration of the cooperation period, the Consortium shall handover all the ownerships and interests in respect of the wastewater treatment plants and relevant facilities and equipment under the PPP Project to the Litang County House and Urban-Rural Development Bureau or its designated entity at nil consideration.

III. INFORMATION ABOUT THE PPP PROJECT

The PPP Project comprises of the construction and operation of the wastewater treatment plants and relevant facilities and equipment located within the red line of the PPP Project in Litang County, Ganzi Tibetan Autonomous Prefecture, Sichuan Province. The PPP Project comprises of (a) near-term project (Phase I of the PPP Project): the construction and operation of the county domestic wastewater treatment plant with the planned daily treatment capacity of 3,500 cubic meters, the industrial park wastewater treatment plant with the planned daily treatment capacity of 2,500 cubic meters, and the wastewater collection pipeline network of 15 kilometers; and (b) long-term project (Phase II of the PPP Project): the construction and operation of the county domestic wastewater treatment plant with the planned daily treatment capacity of 3,500 cubic meters, the industrial park wastewater treatment plant with the planned daily treatment capacity of 2,500 cubic meters, and the wastewater collection pipeline network of 10 kilometers.

The estimated total investment for the PPP Project is approximately RMB239.9 million which, excluding the registered capital of the Project Company of approximately RMB48.2 million, will be financed by the Project Company mainly by obtaining bank loans by pledging the facilities, right in proceeds or other interest of the PPP Project with written consent of Litang County House and Urban-Rural Development Bureau pursuant to the PPP Project Agreement.

IV. INFORMATION OF THE LITANG COUNTY HOUSE AND URBAN-RURAL DEVELOPMENT BUREAU, GUIZHOU ZHONGBAILUN AND THE GROUP

Litang County House and Urban-Rural Development Bureau is a local government authority authorized by the People's Government of Litang County (理塘縣人民政府) and is responsible for the implementation of the PPP Project.

Guizhou Zhongbailun is a limited liability company incorporated on 24 March 2021 with the scope of business varying from construction engineering, highway engineering, water conservancy and hydropower engineering, electric power engineering, communication engineering, etc.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Litang County House and Urban-Rural Development Bureau and Guizhou Zhongbailun and their ultimate beneficial owner is a third party independent of the Company and its connected person(s) (as defined under the Listing Rules).

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.

V. BENEFITS AND REASONS FOR ENTERING INTO THE PPP PROJECT AGREEMENT

Litang County is an important part of the ecological barrier area in the upper reaches of the Yangtze River and has a high responsibility for ecological protection, however, there are no wastewater treatment plants in Litang County, so the PPP Project is of great significance to the drinking water safety and ecological environment safety of Litang County resident. As the PPP Project will cover Litang County, Ganzi Tibetan Autonomous Prefecture, Sichuan Province, entering into the PPP Project Agreement will help the Group expand its business market to areas outside Luzhou City. Besides, entering into the PPP Project Agreement is a great opportunity for the Company to enhance the reputation and develop the customer base of the Company and secure more PPP projects in the future around the region, and is also in line with the business strategy of the Company to enlarge the Group's business scale and realize a continuous and stable growth in revenue of the Company.

The Directors (including the independent non-executive Directors) are of the view that the terms of the PPP Project 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.

VI. 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)
“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
“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
“PPP Project”	the construction and operation project of the wastewater treatment plants, pipeline network and other facilities and equipment in Litang County, Ganzi Tibetan Autonomous Prefecture, Sichuan Province, the PRC
“PPP Project Agreement”	the PPP project agreement entered into between Litang County House and Urban-Rural Development Bureau, Guizhou Zhongbailun and the Company on 26 October 2022 in respect of the PPP Project
“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
“Project Company”	a project company to be established by the Company, Guizhou Zhongbailun and Litang County House and Urban-Rural Development Bureau, of which the Company, Guizhou Zhongbailun and Litang County House and Urban-Rural Development Bureau shall respectively hold as to 89.9%, 0.1% and 10.0% equity interest
“RMB”	Renminbi, the lawful currency of the PRC

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

Luzhou, Sichuan Province, the PRC
26 October 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 Fenfen; and (iii) three independent non-executive Directors, namely Ms. Ma Hua, Mr. Fu Ji and Mr. Liang Youguo.

* For identification purposes only