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

瀘州市興瀘水務(集團)股份有限公司

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

(Stock code: 2281)

**CONTINUING CONNECTED TRANSACTIONS
PROPERTY AND CLEANING SERVICE AGREEMENT**

BACKGROUND

On 18 January 2023 (after trading hours), Xinghe Water Environment, a non-wholly owned subsidiary of the Company, entered into the Property and Cleaning Service Agreement with Xinglu Property Management, pursuant to which, Xinglu Property Management agreed to provide property management services and other related services to Hejiang Wastewater Treatment Plant*(合江污水處理廠).

LISTING RULES IMPLICATIONS

As at the date of this announcement, Xinglu Property Management is a wholly owned subsidiary of Xinglu Investment, the Controlling Shareholder. Accordingly, Xinglu Property Management is a connected person of the Company and the transactions contemplated under the Property and Cleaning Service Agreement constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

Pursuant to Rules 14A.81 and 14A.82 of the Listing Rules, the transactions contemplated under the Property and Cleaning Service Agreement are required to be aggregated with other transactions contemplated under the Previous Service Agreement. As the highest applicable percentage ratio calculated with reference to Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the Property and Cleaning Service Agreement and the Previous Service Agreement, on an annual and aggregated basis, is more than 0.1% but less than 5%, the transactions thereunder are subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement pursuant to Rule 14A.76(2) of the Listing Rules.

I. INTRODUCTION

On 18 January 2023 (after trading hours), Xinghe Water Environment, a non-wholly owned subsidiary of the Company, entered into the Property and Cleaning Service Agreement with Xinglu Property Management, pursuant to which, Xinglu Property Management agreed to provide property management services and other related services to Hejiang Wastewater Treatment Plant.

II. PROPERTY AND CLEANING SERVICE AGREEMENT

The principal terms of Property and Cleaning Service Agreement are set out below:

Date: 18 January 2023 (after trading hours)

Parties: (1) Xinghe Water Environment; and
(2) Xinglu Property Management

Subject Matter: Xinglu Property Management has agreed to provide the following services to the Hejiang Wastewater Treatment Plant: (i) guarding service and order maintenance of public areas, (ii) hygiene maintenance of public areas and periodic cleaning of the production areas, (iii) canteen services, and (iv) preparation for random inspections.

Term: One (1) year from 18 January 2023 to 17 January 2024.

Service Fee and Payment Term: The parties have agreed that the highest annual property service fee under the Property and Cleaning Service Agreement shall be approximately RMB0.53 million, which includes the staff wages and benefits, clothing fee and administrative expenses, profits, tax, insurance and other fees.

Xinghe Water Environment will assess the performance of Xinglu Property Management for the previous month and pay the actual service fee based on the assessment result on a monthly basis. If Xinglu Property Management's performance did not meet the assessment standard as agreed in the Property and Cleaning Service Agreement, the corresponding portion of the service fee shall be deducted from the service fee to be paid by Xinghe Water Environment in accordance with the Property and Cleaning Service Agreement.

Xinglu Property Management represents and warrants that the aforementioned property service fee is not more than that it charges any other Independent Third Party for services of similar nature.

Pricing Policy: The contract terms were determined after arm's length negotiation with reference to the historical service fee rates provided by Xinglu Property Management to the Group, the market service fee rates, the staff salary level in Luzhou area and the market prices and other contract terms for similar services, and shall be no less favourable than those for similar services provided by Independent Third Parties.

III. HISTORICAL FIGURES

The table below sets out the actual transaction amounts, being the property management fees paid by the Group to Xinglu Property Management for the years ended 31 December 2020, 2021 and 2022:

| | For the year ended 31 December | | |
|-----------------------------------|--------------------------------|------------------|------------------|
| | 2020 | 2021 | 2022 |
| | (RMB in million) | (RMB in million) | (RMB in million) |
| Actual transaction amounts | 4.110 | 3.896 | 3.599 |

IV. ANNUAL CAPS

The table below sets out the annual caps for the transactions under the Property and Cleaning Service Agreement, the Previous Service Agreement and the aggregate annual cap for the years ending 31 December 2023 and 2024:

| | For the year | For the year |
|--|------------------|---------------------|
| | ending | ending |
| | 31 December | 31 December |
| | 2023 | 2024 |
| | (RMB in million) | (RMB in million) |
| Annual caps | | |
| Annual cap under the Property and Cleaning Service Agreement | 0.50 | 0.03 ⁽¹⁾ |
| Annual cap under the Previous Service Agreement | 4.00 | 2.80 ⁽²⁾ |
| Aggregate Annual Cap | 4.50 | 2.83 |

Notes:

- (1) Represents the expected transaction amount during the period from 1 January 2024 to 17 January 2024.
- (2) Represents the annual cap for the Previous Service Agreement for the eight months from 1 January 2024 to 31 August 2024.

V. INTERNAL CONTROL

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

- (i) the legal department and finance department of the Company will closely monitor the transactions under the Property and Cleaning Service Agreement to ensure that the transactions amounts will not exceed the annual caps for the agreement;
- (ii) the legal department of the Company will conduct regular random checks to review and assess whether the transactions contemplated under Property and Cleaning Service Agreement are conducted on normal commercial terms, in accordance with the terms set out in the agreement and whether the service fees and relevant contract terms are in the interest of the Company and the Shareholders as a whole;
- (iii) the Company's external auditors will conduct an annual review of the transactions under Property and Cleaning Service Agreement to ensure that the transactions amounts are within the annual cap and the transactions are in accordance with the terms set out in the agreement; and
- (iv) the Company's independent non-executive Directors will conduct regular reviews of the status of the transactions under Property and Cleaning Service Agreement to ensure that the Company has complied with its internal approval process, the terms of the agreement and the relevant requirements under the Listing Rules.

VI. INFORMATION ABOUT XINGLU PROPERTY MANAGEMENT, XINGHE WATER ENVIRONMENT AND THE GROUP

Xinglu Property Management is a limited liability company established in the PRC on 26 August 2005 and wholly-owned by Xinglu Investment, the Controlling Shareholder. Xinglu Property Management is primarily engaged in property management, parking lots management and domestic services.

Xinghe Water Environment is a non-wholly owned subsidiary of the Company and is primarily engaged in the investment and construction of wastewater treatment facilities, operation and management, project consulting, professional training, environmental protection equipment manufacturing, sales, installation, repairment and maintenance and water environment management.

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

VII.REASONS FOR ENTERING INTO THE PROPERTY AND CLEANING SERVICE AGREEMENT

Xinglu Property Management is specialized in property management and has been providing efficient property management service to the Group since April 2011. As a result of the long-term business relationship, Xinglu Property Management is familiar with the requirements and the specifications for the property management services required by the Group. The Directors believe that entering into the Property and Cleaning Service Agreement is beneficial for the long-term business relationship with Xinglu Property Management.

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

Property and Cleaning Service Agreement has been approved by the Board. None of the Directors had material interest in the Property and Cleaning Service Agreement and the transactions contemplated thereunder and hence no Director was required to abstain from voting on the relevant resolutions of the Board approving the same.

VIII.LISTING RULES IMPLICATIONS

As at the date of this announcement, Xinglu Property Management is a wholly owned subsidiary of Xinglu Investment, the Controlling Shareholder. Accordingly, Xinglu Property Management is a connected person of the Company and the transactions contemplated under the Property and Cleaning Service Agreement constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

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IX. DEFINITIONS

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

| | |
|---|--|
| “Board” | the board of Directors |
| “Company” | Luzhou Xinglu Water (Group) Co., Ltd.* (瀘州市興瀘水務(集團)股份有限公司) |
| “Controlling Shareholder” | has the meaning ascribed thereto under the Listing Rules, and in the context of this announcement, refers to the controlling shareholder of the Company, being Xinglu Investment |
| “Director(s)” | the director(s) of the Company |
| “Group” | the Company and its subsidiaries |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Independent Third Parties” | person(s) or company(ies) which is(are) not a connected person(s) (as defined in the Listing Rules) of the Company |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time |
| “Previous Service Agreement” | the property services agreement entered into between Xinglu Wastewater Treatment and Xinglu Property Management on 26 August 2022 |
| “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 |
| “Property and Cleaning Service Agreement” | the property and cleaning service agreement entered into between Xinghe Water Environment and Xinglu Property Management on 18 January 2023 (after trading hours) |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Share(s)” | share(s) of the Company |
| “Shareholder(s)” | shareholder(s) of the Company |

| | |
|------------------------------|---|
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Xinghe Water Environment” | Luzhou Xinghe Water Governance Co., Ltd.*(瀘州市興合水環境治理有限公司), a PRC limited liability company established on 29 August 2018 and a non-wholly owned subsidiary of the Company |
| “Xinglu Investment” | Luzhou City Xinglu Investment Group Co., Ltd.* (瀘州市興瀘投資集團有限公司), the Controlling Shareholder of the Company, a PRC limited liability company established on 28 January 2003 and owned as to 90% by the State-owned Assets Supervision and Administration Commission of Luzhou (瀘州市國有資產監督管理委員會) and 10% by Sichuan Provincial Department of Finance *(四川省財政廳) |
| “Xinglu Property Management” | Luzhou Xinglu Property Management Co., Ltd.* (瀘州興瀘物業管理有限公司), a PRC limited liability company established on 26 August 2005 and wholly owned by Xinglu Investment |

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

Luzhou, Sichuan Province, the PRC
18 January 2023

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