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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)

DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS SLUDGE DISPOSAL SERVICES

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.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Xinglu Environmental Protection is a wholly-owned subsidiary of Luzhou Xinglu Environment. Luzhou Xinglu Environment 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, and the remaining equity is directly held as to 5% by Chongqing Derun Environment and indirectly held as to 8.8% through Chongqing Sanfeng Environment. Accordingly, Xinglu Environmental Protection is a connected person of the Company as defined under Chapter 14A of the Listing Rules and the transactions contemplated under the Service Contract constitute continuing connected transactions of the Company.

Pursuant to the Listing Rules, as the highest applicable percentage ratio (on an annual basis) in respect of the transactions contemplated under the Service Contract is more than 5% but less than 25% and the absolute amount exceeds HK\$10 million, pursuant to Chapter 14A of the Listing Rules, the transactions contemplated thereunder are subject to the reporting, announcement, annual review, circular and independent shareholders’ approval requirements. This transaction constitutes a discloseable transaction under Chapter 14 of the Listing Rules.

GENERAL

A general meeting will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the transactions contemplated under the Service Contract. Xinglu Assets and its associates who have a material interest in the transactions contemplated under the Service Contract will be required to abstain from voting on the resolution to approve the Service Contract and the transactions contemplated thereunder at the general meeting.

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders on, among other things, the terms of the Service Contract and how to vote on the resolution in respect of the Service Contract at the general meeting. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, further details of the Service Contract, a letter from the Independent Board Committee and a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders will be published and/or despatched to the Shareholders in due course.

I. 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 with Xinglu Environmental Protection, pursuant to which, Xinglu Environmental Protection agreed to provide sludge disposal services to Xinglu Wastewater Treatment, the principal terms of which are set out below:

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 and Service Fee: 1 year from the date of contract signing and becoming effective.

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.

Payment Period: 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.

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.

II. HISTORICAL FIGURES

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

III. 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 determined by the aforementioned pricing policy.

Annual caps	For the year ending 31 December	
	2024	2025
	<i>(RMB’0,000)</i>	<i>(RMB’0,000)</i>
Service Contract	1,650	1,650

III. 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) the legal department and finance department of the Company will closely monitor the transactions under the Service Contract to ensure that the transaction amounts will not exceed the annual caps for the Service Contract;
- (ii) 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;
- (iii) 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
- (iv) 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.

IV. 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.

V. 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.

VI. LISTING RULES IMPLICATIONS

As at the date of this announcement, Xinglu Environmental Protection is 100% owned by Luzhou 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, and the remaining interests are directly held as to 5% by Chongqing Derun Environment and indirectly held as to 8.8% through Chongqing Sanfeng Environment, respectively. 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% but 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. This transaction also constitutes a discloseable transaction under Chapter 14 of the Listing Rules.

VII. DEFINITIONS

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

“Board”	the board of Directors 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% by Chongqing State-owned Assets Supervision and Management Commission
“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 as to 32.99% by Chongqing State-owned Assets Supervision and Management Commission
“Company”	Luzhou Xinglu Water (Group) Co., Ltd.* (瀘州市興瀘水務(集團)股份有限公司), a joint stock company with limited liability incorporated in the PRC, whose H Shares are listed on the Main Board of the Stock Exchange
“Controlling Shareholder”	has the meaning ascribed thereto under the Listing Rules, and in the context of this announcement, refers to the Controlling Shareholder of the Company, being Xinglu Assets
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“H Share(s)”	the ordinary share(s) in issue in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and listed on the Main Board of the Stock Exchange
“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 Listing Rules of the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Luzhou 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
“PRC”	the People’s Republic of China, for the purposes of this announcement, excluding Hong Kong Special Administrative Region, the Macau Special Administrative Region 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
“Shareholder(s)”	shareholder(s) of the Company
“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 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 Luzhou Xinglu Environment

“Xinglu Investment”

Luzhou City Xinglu Investment Group Co., Ltd.* (瀘州市興瀘投資集團有限公司), the beneficial owner of Xinglu Assets, 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

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

Luzhou, the PRC
16 May 2024

As at the date of this announcement, the Board comprises of (i) three executive directors, namely Mr. Zhang Qi, Mr. Chen Qinan and Mr. Xu Guanghua; (ii) three non-executive directors, namely Mr. Xu Fei, Ms. Zhang Guanghui 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*