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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)

**CONNECTED TRANSACTION
TRANSFER OF EQUITY INTEREST IN THE TARGET COMPANY**

EQUITY TRANSFER AGREEMENT

On 16 August 2024 (after trading hours), the Company entered into the Equity Transfer Agreement with Xinglu Assets, pursuant to which the Company has agreed to transfer, and Xinglu Assets has agreed to acquire, the entire equity interest in the Target Company at a consideration of RMB9.782 million.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Xinglu Assets is the Controlling Shareholder of the Company. Accordingly, Xinglu Assets is a connected person of the Company as defined under Chapter 14A of the Listing Rules and the transaction contemplated under the Equity Transfer Agreement constitutes a connected transaction of the Company.

As the highest applicable percentage ratio in respect of the transaction contemplated under the Equity Transfer Agreement is more than 0.1% but less than 5% calculated pursuant to Rule 14.07 of the Listing Rules and the absolute amount exceeds HK\$3 million, the transaction contemplated under the Equity Transfer Agreement is subject to the reporting and announcement requirements but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

I. BACKGROUND

On 16 August 2024 (after trading hours), the Company entered into the Equity Transfer Agreement with Xinglu Assets, pursuant to which the Company has agreed to transfer, and Xinglu Assets has agreed to acquire, the entire equity interest in the Target Company at a consideration of RMB9.782 million.

EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are set out below:

- Date:** 16 August 2024 (after trading hours)
- Parties:** (1) The Company (as transferor); and
(2) Xinglu Assets (as transferee).
- Subject matter:** The entire equity interest in the Target Company.
- Consideration and payment terms:** The consideration payable by the transferee under the Equity Transfer Agreement is RMB9.782 million, which is determined with reference to the net assets value as stated in the valuation report issued by an independent valuer engaged by the Target Company on 15 August 2024.
- The transferee shall pay the consideration to the Company in the following manner:
- Within five (5) business days from the date of signing the Equity Transfer Agreement, 60% of the total consideration shall be paid by Xinglu Assets to the bank account designated by the Company, and the balance shall be fully paid within three months from the date of signing the Equity Transfer Agreement.
- Completion:** The Company and Xinglu Assets shall complete the relevant registration procedures for change in equity interest in the Target Company within ten (10) business days from the date of signing the Equity Transfer Agreement.

II. INFORMATION ON THE TARGET COMPANY

The Target Company is a limited liability company established in the PRC on 23 February 1996 and is a wholly-owned subsidiary of the Company. It is principally engaged in the business of trading services (including ready-to-sell drinking water, food sales, materials and equipment sales, etc.).

III. FINANCIAL EFFECT OF THE TRANSFER OF EQUITY INTEREST IN THE TARGET COMPANY AND USE OF PROCEEDS

The unaudited total assets and net assets of the Target Company as at 30 June 2024 were approximately RMB14.431 million and RMB9.755 million, respectively. The profits of the Target Company for the two years ended 31 December 2022 and 2023 and the six months ended 30 June 2024 are set out below:

| | For the year ended 31 December 2022 (Audited) <i>(RMB in million)</i> | For the year ended 31 December 2023 (Audited) <i>(RMB in million)</i> | For the six months ended 30 June 2024 (Unaudited) <i>(RMB in million)</i> |
|--------------------------|--------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| Revenue | 19.487 | 18.355 | 2.246 |
| Profit/(loss) before tax | 0.686 | 0.809 | (0.509) |
| Net profit/(loss) | 0.694 | 0.776 | (0.443) |

According to the appraisal by the independent valuer, the assessed market value of the Target Company as at the valuation benchmark date was RMB9.782 million.

The valuation method adopted by the independent valuer for appraisal of the Target Company is the asset-based method, which refers to a valuation method for reasonable appraisal of the value of on-balance sheet and identifiable off-balance sheet assets and liabilities of the Target Company based on the balance sheet of the Target Company as at the valuation benchmark date to determine the value of the Target Company. The reason for this adoption is that the appraised entity has complete financial information and asset management information available, and there are vast sources of relevant data and information on asset acquisition costs.

The valuation assumptions of the independent valuer are as follows: 1. basic assumptions (including a) transaction assumption; b) open market assumption; c) business going concern assumption; and d) the valuation assuming that economic useful life of investment real estate and buildings is consistent with the expiry of land while the residual value of buildings is not taken into account); 2. macroeconomic environment assumptions (including a) no major changes in the country's current economic policies or directions; b) no major changes in bank credit interest rates, exchange rates and tax rates; c) no major changes in the social and economic environments of the region where the Target Company is located; and d) the steady

development trend of the industry to which the Target Company belongs, and the prevailing laws, regulations and economic policies related to the production and operation of the Target Company remaining stable); 3. assumptions about the status of the appraised object as at the valuation benchmark date and; 4. other general restrictive assumptions.

Based on the consideration of the Equity Transfer, the Equity Transfer is expected to generate book gain of approximately RMB0.027 million (tax inclusive), which is calculated with reference to the consideration of the transaction less the unaudited net asset value of the Target Company as at 30 June 2024. The actual amount of gain (or loss) from the Equity Transfer to be recorded by the Group is subject to review and final audit by the auditors of the Company.

Immediately following the completion of the Equity Transfer, the Target Company will cease to be a subsidiary of the Company, and the financial results of the Target Company will also no longer be consolidated in the Group's consolidated financial statements. The proceeds from the transfer of equity interest in the Target Company will be used as general working capital.

IV. INFORMATION ON THE PARTIES TO THE EQUITY TRANSFER AGREEMENT

Xinglu Assets is a limited liability company established in the PRC on 4 September 2014 and is the Controlling Shareholder of the Company, and is owned as to 100% by Xinglu Investment. Xinglu Assets is mainly engaged in investment and asset management business. Xinglu Investment is a limited liability company established on 28 January 2003 and is owned as to 90% by Luzhou State-owned Assets Supervision and Administration Commission (瀘州市國有資產監督管理委員會). It is mainly engaged in investment and asset management, project management and investment and financial consulting business.

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. REASONS FOR AND BENEFITS OF ENTERING INTO THE EQUITY TRANSFER AGREEMENT

The Directors believe that the entering into of the Equity Transfer Agreement would enable the Company to focus more on tap water production and supply and wastewater treatment businesses, improve the professional operation and maintenance management of the Company, and thus bring more stable benefits to the Shareholders.

The Directors (including the independent non-executive Directors) are of the view that the terms of the transaction under the Equity Transfer Agreement are fair and reasonable, on normal commercial terms, and in the ordinary and usual course of business of the Group, which is in the interest of the Company and its Shareholders as a whole.

The Equity Transfer Agreement and the transaction contemplated thereunder have been considered and approved by the Board. None of the Directors had any material interest in the Equity Transfer Agreement and the transaction contemplated thereunder and hence no Director was required to abstain from voting on the relevant resolutions of the Board approving the same.

VI. LISTING RULES IMPLICATIONS

As at the date of this announcement, Xinglu Assets is the Controlling Shareholder of the Company. Accordingly, Xinglu Assets is a connected person of the Company under Chapter 14A of the Listing Rules and the transaction contemplated under the Equity Transfer Agreement entered into between it and the Company constitutes a connected transaction of the Company.

As the highest applicable percentage ratio in respect of the transaction contemplated under the Equity Transfer Agreement is more than 0.1% but less than 5% and the absolute amount exceeds HK\$3 million, the transaction contemplated under the Equity Transfer Agreement is subject to the reporting and announcement requirements but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

VII. DEFINITIONS

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

| | |
|-----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Board” | the board of Directors of the Company |
| “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 |
| “Equity Transfer Agreement” | the equity transfer agreement entered into between the Company and Xinglu Assets for the transfer of equity interest in the Target 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 |
| “Listing Rules” | the Listing Rules of the Stock Exchange, as amended, supplemented or otherwise modified from time to time |
| “PRC” | the People’s Republic of China, for the purposes of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Shareholder(s)” | holder(s) of the share(s) of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |

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|---------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Target Company” | Luzhou Xinglu Water (Group) Crystal Trading Co., Ltd. (瀘州市興瀘水務 (集團) 水晶商貿有限公司), a limited liability company established in PRC on 23 February 1996 and a wholly-owned subsidiary 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), a limited liability company established on 4 September 2014, the Controlling Shareholder of the Company, and owned as to 100% by Xinglu Investment |
| “Xinglu Investment” | Luzhou City Xinglu Investment Group Co., Ltd.* (瀘州市興瀘投資集團有限公司), a limited liability company established on 28 January 2003 and owned as to 90% by Luzhou State-owned Assets Supervision and Administration Commission (瀘州市國有資產監督管理委員會), the beneficial owner of Xinglu Assets, the Controlling Shareholder of the Company |

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

Luzhou, the PRC
16 August 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