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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 TRANSACTION
XINGLU WASTEWATER TREATMENT PROPERTY SERVICES
AGREEMENT**

XINGLU WASTEWATER TREATMENT PROPERTY SERVICES AGREEMENT

On 15 June 2018, Xinglu Wastewater Treatment, a non-wholly owned subsidiary of the Company, entered into the Xinglu Wastewater Treatment Property Services Agreement with Xinglu Property Management, pursuant to which, Xinglu Property Management agreed to provide property management services to the Group.

LISTING RULES IMPLICATIONS

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

Pursuant to Rule 14A.83 of the Listing Rules, the transactions under the Xinglu Wastewater Treatment Property Services Agreement are required to be aggregated with other transactions between the Group and Xinglu Property Management under the Previous Property Management Service Agreements which are fully exempt from shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.76(1) of the Listing Rules. As the highest applicable percentage ratio calculated with reference to Rule 14.07 of the Listing Rules in respect of the proposed annual cap for the Service Agreements on an annual aggregated basis exceeds 0.1% but all of the applicable percentage ratios are less than 5%, the transactions contemplated under the Service Agreements are subject to reporting, announcement and annual review requirements but are exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

I. INTRODUCTION

On 15 June 2018, Xinglu Wastewater Treatment, a non-wholly owned subsidiary of the Company, entered into the Xinglu Wastewater Treatment Property Services Agreement with Xinglu Property Management for the provision of property management services to the nine wastewater treatment plants of the Group, pursuant to which, Xinglu Property Management agreed to provide property management services to the Group. The service provided under the Xinglu Wastewater Treatment Property Service Agreement is of similar nature to the property management agreement entered into between Xinglu Wastewater Treatment and Xinglu Property Management in 2015 as disclosed in the Company's prospectus dated 21 March 2017 in relation to the property management services of seven wastewater treatment plants. Subsequent to the expiration of the aforesaid agreement in December 2017, such property management was conducted by Xinglu Wastewater Treatment as temporary measures during the period from 1 January 2018 till the date of this announcement.

II. PREVIOUS SERVICE AGREEMENTS

On 31 December 2017, the Company, Nanjiao Water and Xinglu Property Management entered into the Nanjiao Water Property Management Services Agreement, pursuant to which Xinglu Property Management agreed to provide property management services to the facilities of the new and old Nanjiao Supply Plant* (南郊水廠) and other properties as separately agreed by the parties, with the term from 1 January 2018 to 15 October 2019. The annual property service fee under the Nanjiao Water Property Management Services Agreement was approximately RMB0.2 million, which includes the staff salaries, administrative expenses and cleaning supplies expenses and shall be paid by the Company and Nanjiao Water on a semi-annual basis. The property management services mainly include hygiene services, daily maintenance, maintenance of relevant documents and establishment of emergency measures.

On 31 December 2017, Beijiao Water and Xinglu Property Management entered into Beijiao Water Property Services Agreement, pursuant to which Xinglu Property Management agreed to provide property management services to the facilities of Beijiao Supply Plant* (北郊水廠) and other properties as separately agreed by the parties, with the term from 1 January 2018 to 15 October 2019. The annual property service fee under the Beijiao Water Property Services Agreement was approximately RMB0.2 million, which includes the staff salaries, administrative expenses and cleaning supplies expenses and shall be paid by Beijiao Water on a semi-annual basis. The property management services mainly include hygiene services, daily maintenance, maintenance of relevant documents and establishment of emergency measures.

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.

The Previous Property Management Service Agreements are fully exempt from shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.76(1) of the Listing Rules.

III. XINGLU WASTEWATER TREATMENT PROPERTY SERVICES AGREEMENT

The principal terms of the Xinglu Wastewater Treatment Property Services Agreement are set out below:

Date

15 June 2018

Parties

- (1) Luzhou Xinglu Wastewater Treatment Co., Ltd.* (瀘州市興瀘污水處理有限公司); and
- (2) Luzhou Xinglu Property Management Co., Ltd.* (瀘州興瀘物業管理有限公司).

Subject Matter

Xinglu Property Management has agreed to provide property management services to the following nine wastewater treatment plants owned by Xinglu Wastewater Treatment with a total area of approximately 319,197.04 square meters: Chengdong Wastewater Treatment Plant* (城東污水處理廠), Chengnan Wastewater Treatment Plant* (城南污水處理廠), Yaerdang Wastewater Treatment Plant* (鴨兒凼污水處理廠), Erdaoxi Wastewater Treatment Plant* (二道溪污水處理廠), Naxi Wastewater Treatment Plant* (納溪污水處理廠), Gulin Wastewater Treatment Plant* (古蔺污水處理廠), Xuyong Wastewater Treatment Plant* (敘永污水處理廠), Hejiang Wastewater Treatment Plant* (合江污水處理廠) and Lu County Wastewater Treatment Plant* (瀘縣污水處理廠).

The property management services mainly include: (1) order maintenance of public areas; (2) registration and management of external vehicles, visitors and bulky items; (3) hygiene maintenance in public area and periodic cleaning of the rails in plant area; and (4) maintenance of lawn and trees in public green areas.

Term

From the signing date of the agreement to 31 May 2020

Service Fee and Payment Term

The parties have agreed that the annual property service fee under the Xinglu Wastewater Treatment Property Services Agreement shall be approximately RMB4.5 million, which includes the staff salaries, administrative expenses, greening fees and cleaning supplies expenses, and shall be paid by Xinglu Wastewater Treatment on a quarterly basis.

Basis of Determination of Contract Terms

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.

IV. HISTORICAL FIGURES

The table below sets out the actual transaction amounts, being the property management fees paid by the Group to Xinglu Property Management in respect of the property management services provided by Xinglu Property Management for seven plants of Xinglu Wastewater Treatment, namely Yaerdang Wastewater Treatment Plant* (鴨兒凼污水處理廠), Erdaoxi Wastewater Treatment Plant* (二道溪污水處理廠), Naxi Wastewater Treatment Plant* (納溪污水處理廠), Gulin Wastewater Treatment Plant* (古蔺污水處理廠), Xuyong Wastewater Treatment Plant* (敘永污水處理廠), Hejiang Wastewater Treatment Plant* (合江污水處理廠) and Lu County Wastewater Treatment Plant* (瀘縣污水處理廠), for the three years ended 31 December 2017.

	For the year ended 31 December 2015 (RMB)	For the year ended 31 December 2016 (RMB)	For the year ended 31 December 2017 (RMB)
Actual transaction amounts	2,802,000	3,215,000	2,983,000

V. AGGREGATION OF ANNUAL CAPS

Since the Service Agreements are of the similar nature and have been entered into by the Group with the same connected person, the transactions contemplated under Services Agreement shall be aggregated pursuant to Rule 14A.83 of the Listing Rules. Accordingly, the annual caps in respect of the transactions under the Xinglu Wastewater Treatment Property Services Agreement and the Previous Property Management Service Agreements shall be aggregated, and such aggregate amount is used when calculating the relevant percentage ratios under Chapter 14A of the Listing Rules.

The table below sets out the aggregated annual caps for the transactions between the Group and Xinglu Property Management under the Service Agreements for the two years ending 31 December 2019 and five months ending 31 May 2020:

	For the year ending 31 December 2018 (RMB)	For the year ending 31 December 2019 (RMB)	For the five months ending 31 May 2020 (RMB)
Aggregated Annual Cap	3,500,000	5,000,000	2,000,000

VI. INTERNAL CONTROL

The Company and Xinglu Wastewater Treatment have formulated strict internal control policies and the Company has adopted the following internal control measures in respect of the transactions contemplated under the Service Agreements:

- a. the relevant management personnel of the Company will closely monitor the transactions under the Xinglu Wastewater Treatment Property Services Agreement to ensure that the transaction amounts of the transactions contemplated under the Service Agreements does not exceed the annual caps for the Service Agreements on an annual aggregated basis;
- b. the relevant management personnel of the Company will conduct regular checks to review and assess whether the transactions contemplated under the Xinglu Wastewater Treatment Property Services Agreement are conducted in accordance with the terms set out in the Service Agreements and whether the service fee and relevant contract terms for the transactions are in the interest of the Company and the Shareholders as a whole and in accordance with the pricing policies set out in the Services Agreements;

- c. the Company's external auditors will conduct an annual review of the transactions entered into under the Service Agreements to ensure that the transactions amount are within the annual caps and the transactions are in accordance with the terms set out in the Service Agreements; and
- d. the Company's independent non-executive Directors will conduct regular reviews of the status of the transactions under the Service Agreements to ensure that the Company has complied with its internal approval process, the terms of the Service Agreements and the relevant requirements under the Listing Rules.

VII. INFORMATION ABOUT THE GROUP AND XINGLU PROPERTY MANAGEMENT

The Group is mainly engaged in tap water supply services and wastewater treatment services in Luzhou area.

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 of the Company. Xinglu Property Management is primarily engaged in property management, parking lots management and domestic service.

VIII. REASONS FOR ENTERING INTO THE XINGLU WASTEWATER TREATMENT PROPERTY SERVICES AGREEMENT

Xinglu Property Management is specialised in property management and has been providing efficient property management service to the Group since April 2011.

The Directors (including the independent non-executive Directors) are of the view that the transactions under the Xinglu Wastewater Treatment Property Services 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.

Xinglu Wastewater Treatment Property Services Agreement has been approved by the Board. None of the Directors had material interest in the Xinglu Wastewater Treatment Property Services 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.

IX. LISTING RULES IMPLICATIONS

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

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X. DEFINITION

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

“Beijiao Water”	Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.*(瀘州市興瀘水務(集團)北郊水業有限公司), a PRC limited liability company established on 25 March 2004 and a non-wholly owned subsidiary of the Company
“Beijiao Water Property Services Agreement”	the property services agreement entered into between Beijiao Water and Xinglu Property Management on 31 December 2017
“Board”	the board of Directors
“Chairman”	the chairman of the Board
“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

“Director(s)”	the director(s) of the Company
“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 corporate entities
“Group”	the Company and its subsidiaries
“H Share(s)”	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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Nanjiao Water”	Luzhou Nanjiao Water Co., Ltd.* (瀘州市南郊水業有限公司), a PRC limited liability company established on 18 September 2002 and a non-wholly owned subsidiary of the Company
“Nanjiao Water Property Management Services Agreement”	the property management services agreement entered into among the Company, Nanjiao Water and Xinglu Property Management on 31 December 2017
“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
“Previous Property Management Service Agreements”	Nanjiao Water Property Management Services Agreement and Beijiao Water Property Services Agreement, which are fully exempt from disclosure under Rule 14A.76 (1) of the Listing Rules
“RMB”	Renminbi, the lawful currency of the PRC

“Service Agreements”	the Previous Property Management Service Agreements and the Xinglu Wastewater Treatment Property Services Agreement
“Share(s)”	the Domestic Share(s) and the H Share(s)
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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 100% 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 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
“Xinglu Wastewater Treatment”	Luzhou Xinglu Wastewater Treatment Co., Ltd.* (瀘州市興瀘污水處理有限公司), a PRC limited liability company established on 11 December 2000 and a non-wholly owned subsidiary of the Company
“Xinglu Wastewater Treatment Property Services Agreement”	the property services agreement entered into between Xinglu Wastewater Treatment and Xinglu Property Management on 15 June 2018

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

Luzhou, the PRC
15 June 2018

As at the date of this announcement, the Board comprises of (i) three executive Directors, namely Mr. Zhang Qi, Mr. Liao Xingyue and Mr. Wang Junhua; (ii) three non-executive Directors, namely Mr. Chen Bing, Ms. Xu Yan and Mr. Xie Xin; and (iii) three independent non-executive Directors, namely Mr. Gu Ming'an, Mr. Lin Bing and Mr. Cheng Hok Kai, Frederick.

* For identification purposes only