

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Taizhou Water Group Co., Ltd., you should at once hand this circular, together with the accompanying form of proxy to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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Taizhou Water Group Co., Ltd.*
台州市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: 1542)

- (1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION;**
(2) FURTHER REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS;
(3) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS;
(4) PROPOSED ISSUE OF BONDS;
(5) PROPOSED APPOINTMENT OF DIRECTORS;
(6) PROPOSED INJECTION OF CAPITAL TO SUBSIDIARY;
(7) PROPOSED PROVISION OF GUARANTEE;
(8) PROPOSED APPLICATIONS FOR CREDIT FACILITIES;
(9) PROPOSED LIMITS OF CREDIT FACILITIES;
AND
(10) NOTICE OF THE 2021 SECOND EXTRAORDINARY GENERAL MEETING

A letter from the Board is set out on pages 8 to 39.

A letter from the Independent Board Committee is set out on pages 40 to 41 of this circular.

A letter from Red Sun, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Huangyan Equity Transfer Agreement is set out on pages 42 to 59 of this circular.

A letter from Honestum, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement is set out on pages 60 to 74 of this circular.

A notice convening the EGM of the Company to be held at Conference Room, Taizhou Water Group Co., Ltd., No. 308 Yin Quan Road, Xicheng Street, Huangyan District, Taizhou, Zhejiang Province, the PRC at 3:00 p.m. on Thursday, 28 October 2021 is set out on pages EGM-1 to EGM-5 of this circular. A form of proxy for use at the EGM is also enclosed with this circular. Whether or not you intend to attend and vote at the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the H Share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (in respect of holders of H Shares), or to the Company's registered office in the PRC at No. 308 Yin Quan Road, Xicheng Street, Huangyan District, Taizhou, Zhejiang Province, the PRC (in respect of holders of Domestic Shares) as soon as possible but in any event by not later than 24 hours before the time appointed for holding of the EGM (i.e. before 3:00 p.m. on Wednesday, 27 October 2021) or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

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DEFINITIONS

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

“2019 Huangyan Water Supply Framework Agreement”	the agreement entered into between the Company and Huangyan Water Supply dated 27 October 2019 in relation to the provision of raw water supply services by the Company to Huangyan Water Supply, as supplemented by the Supplemental 2019 Huangyan Water Supply Framework Agreement
“2019 Taizhou Luqiao Raw Water Supply Framework Agreement”	the agreement entered into between the Company and Taizhou Luqiao Water Supply dated 27 October 2019 in relation to the provision of raw water supply services by the Company to Taizhou Luqiao Water Supply
“2021 Huangyan Water Supply Framework Agreement”	the agreement entered into between the Company and Huangyan Water Supply dated 1 September 2021 in relation to the provision of raw water supply services by the Company to Huangyan Water Supply
“Acquisition”	the acquisition of 45% equity interest in Huangyan Water Supply in accordance with the terms and conditions of the Huangyan Equity Transfer Agreement
“Articles of Association”	the articles of association of the Company, as amended from time to time
“Binhai Water”	Taizhou Binhai Water Co., Ltd.* (台州市濱海水務有限公司), a limited liability company established in the PRC on 7 June 2016 and a subsidiary of the Company owned as to 51% by the Company and 49% by Taizhou City Water as at the Latest Practicable Date
“Board”	the board of directors of the Company
“Bonds”	the bonds denominated in foreign currencies in an aggregate principal amount of not more than US\$200 million (or equivalent foreign currency) proposed to be issued by the Company
“Business Day(s)”	a day (excluding Saturday, Sunday and public holiday in the PRC) on which commercial banks are open for business in the PRC

DEFINITIONS

“China” or “PRC”	the People’s Republic of China, which for the purpose of this circular only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Company”	Taizhou Water Group Co., Ltd.* (台州市水務集團股份有限公司), a joint stock company established in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1542)
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	issued ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB
“EGM”	the 2021 second extraordinary general meeting of the Company to be held at Conference Room, Taizhou Water Group Co., Ltd., No. 308 Yin Quan Road, Xicheng Street, Huangyan District, Taizhou, Zhejiang Province, the PRC at 3:00 p.m. on Thursday, 28 October 2021
“Further Revised Annual Caps”	collectively, the Further Revised Huangyan Annual Cap and the Revised Taizhou Luqiao Raw Water Annual Cap
“Further Revised Huangyan Annual Cap”	the proposed revised annual cap amount for the year ending 31 December 2021 for the transactions contemplated under the 2019 Huangyan Water Supply Framework Agreement
“Group”, “we” or “our”	the Company, its subsidiaries and its consolidated affiliated entities from time to time
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange and traded in HKD
“HKD” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“Honestum”	Honestum International Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser that has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huangyan Equity Transfer Agreement”	the equity transfer agreement dated 1 September 2021 entered into between the Company, the Vendor and Huangyan Water Supply in relation to the Acquisition
“Huangyan SCIOG”	Taizhou Huangyan State-owned Capital Investment Operation Group Co., Ltd.* (台州市黃岩國有資本投資運營集團有限公司) (formerly known as Taizhou Huangyan State-owned Assets Operation Group Co., Ltd.* (台州市黃岩區國有資產經營集團有限公司)), a wholly state-owned enterprise with limited liability established in the PRC
“Huangyan Water Supply”	Taizhou Huangyan Urban and Rural Water Supply Co., Ltd.* (台州市黃岩城鄉自來水有限公司) (formerly known as Zhejiang Huangyan Water Supply Co., Ltd.* (浙江黃岩自來水公司)), a limited liability company established in the PRC, and a wholly-owned subsidiary of the Vendor as at the Latest Practicable Date
“Huangyan Water Supply Valuation Report”	the valuation report dated 19 July 2021 issued by the Independent Valuer in respect of the appraisal of the equity attributable to the owners of Huangyan Water Supply as at the Valuation Reference Date
“Independent Board Committee”	an independent committee of the Board, comprising all five independent non-executive Directors, established to advise the Independent Shareholders in respect of each of the Huangyan Equity Transfer Agreement, the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement

DEFINITIONS

“Independent Shareholders”	Shareholders who do not have a material interest in (1) the Huangyan Equity Transfer Agreement; (2) the Supplemental 2019 CCT Agreements; and (3) the 2021 Huangyan Water Supply Framework Agreement, as the case may be
“Independent Valuer”	Canwin Appraisal Co., Ltd. (坤元資產評估有限公司), an independent PRC valuer
“Latest Practicable Date”	23 September 2021, being the latest practicable date before printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to the Listing Rules
“Notice of EGM”	the notice convening the EGM set out on pages EGM-1 to EGM-5 of this circular
“Original Annual Caps”	collectively, the Original Huangyan Annual Cap and the Original Taizhou Luqiao Raw Water Annual Cap
“Original Huangyan Annual Cap”	the original annual cap amount for the year ending 31 December 2021 for the transactions contemplated under the 2019 Huangyan Water Supply Framework Agreement
“Original Taizhou Luqiao Raw Water Annual Cap”	the original annual cap amount for the year ending 31 December 2021 for the transactions contemplated under the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement
“Prospectus”	the prospectus of the Company dated 17 December 2019

DEFINITIONS

“Red Sun”	Red Sun Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser that has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Huangyan Equity Transfer Agreement and the transactions contemplated thereunder
“Revised Taizhou Luqiao Raw Water Annual Cap”	the proposed revised annual cap amount for the year ending 31 December 2021 for the transactions contemplated under the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Second Supplemental 2019 Huangyan Water Supply Framework Agreement”	the agreement dated 1 September 2021 entered into between the Company and Huangyan Water Supply to supplement the 2019 Huangyan Water Supply Framework Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the Domestic Share(s) and/or the H Share(s)
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary/(ies)”	has the meaning ascribed to it under the Listing Rules
“Supervisor(s)”	the supervisor(s) of the Company
“Supplemental 2019 CCT Agreements”	collectively, the Second Supplemental 2019 Huangyan Water Supply Framework Agreement and the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement
“Supplemental 2019 Huangyan Water Supply Framework Agreement”	the agreement dated 13 August 2020 entered into between the Company and Huangyan Water Supply to supplement the 2019 Huangyan Water Supply Framework Agreement

DEFINITIONS

“Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement”	the agreement dated 1 September 2021 entered into between the Company and Taizhou Luqiao Water Supply to supplement the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement
“Taizhou City Water”	Taizhou City Water Co., Ltd.* (台州城市水務有限公司), a limited liability company established in the PRC and an 82%-owned subsidiary of the Company as at the Latest Practicable Date
“Taizhou DRC”	Taizhou Development and Reform Commission (台州市發展和改革委員會)
“Taizhou Luqiao Public Assets”	Taizhou Luqiao Public Assets Investment Management Group Co., Ltd.* (台州市路橋公共資產投資管理集團有限公司) (formerly known as Taizhou Luqiao Public Assets Investment Management Co., Ltd.* (台州市路橋公共資產投資管理有限公司)), a limited liability company established in the PRC which holds approximately 8.80% of the total issued share capital of the Company as at the Latest Practicable Date
“Taizhou Luqiao Water Supply”	Taizhou Luqiao Water Supply Co., Ltd.* (台州市路橋自來水有限公司), a limited liability company established in the PRC
“Transition Period”	the period from the Valuation Reference Date to the completion date of the Acquisition
“United States”	the United States of America
“USD” or “US\$”	United States dollars, the lawful currency of the United States of America
“Valuation Reference Date”	30 April 2021, being the reference date of the Huangyan Water Supply Valuation Report on the appraisal of the equity attributable to the owners of Huangyan Water Supply
“Vendor”	Taizhou Huangyan Water Conservancy Development Group Co., Ltd.* (台州市黃岩水利發展集團有限公司), a limited liability company established in the PRC

DEFINITIONS

“Yongning Financial Consulting”

Zhejiang Yongning Financial Consulting Co., Ltd.* (浙江永寧財務諮詢有限公司), a limited liability company established in the PRC which holds approximately 13.34% of the total issued share capital of the Company as at the Latest Practicable Date

“%”

per cent

LETTER FROM THE BOARD



Taizhou Water Group Co., Ltd.*
台州市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: 1542)

Executive Directors:

Mr. Yang Jun (Chairman)
Mr. Zhang Junzhou

Non-executive Directors:

Mr. Wang Haibo
Mr. Wang Haiping
Ms. Fang Ya
Mr. Yu Yangbin
Ms. Huang Yuyan
Mr. Yang Yide
Mr. Guo Dingwen
Mr. Sun Hua

Independent non-executive Directors:

Mr. Zheng Jianzhuang
Ms. Lin Suyan
Ms. Hou Meiwen
Mr. Li Wai Chung
Mr. Wang Yongyue

*Registered office and Principal Place of
Business in the PRC:*

No. 308 Yin Quan Road
Xicheng Street
Huangyan District
Taizhou, Zhejiang Province
The PRC

Principal Place of Business in Hong Kong:

14/F., Golden Centre
188 Des Voeux Road Central
Hong Kong

30 September 2021

To the Shareholders

Dear Sir or Madam,

- (1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO
THE ACQUISITION;**
**(2) FURTHER REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED
TRANSACTIONS;**
(3) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS;
(4) PROPOSED ISSUE OF BONDS;
(5) PROPOSED APPOINTMENT OF DIRECTORS;
(6) PROPOSED INJECTION OF CAPITAL TO SUBSIDIARY;
(7) PROPOSED PROVISION OF GUARANTEE;
(8) PROPOSED APPLICATIONS FOR CREDIT FACILITIES;
(9) PROPOSED LIMITS OF CREDIT FACILITIES;
AND
(10) NOTICE OF THE 2021 SECOND EXTRAORDINARY GENERAL MEETING

* For identification purposes only

LETTER FROM THE BOARD

1. INTRODUCTION

References are made to (i) the announcement of the Company in relation to the Acquisition, the revision of annual caps for continuing connected transactions and renewal of continuing connected transactions dated 1 September 2021; (ii) the announcement of the Company in relation to the proposed issue of Bonds dated 25 August 2021; and (iii) the announcement of the Company in relation to the proposed appointment of Directors dated 25 August 2021.

The purpose of this circular is to give you the notice of the EGM and to provide you with information regarding the resolutions to be proposed at the EGM to enable you to make an informed decision on whether to vote for or against those resolutions at the EGM.

2. DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION

On 1 September 2021 (after trading hours), the Company, the Vendor and Huangyan Water Supply entered into the Huangyan Equity Transfer Agreement in respect of the Acquisition.

Huangyan Equity Transfer Agreement

Date	1 September 2021
Parties	<ol style="list-style-type: none">1. The Vendor (as vendor);2. the Company (as purchaser); and3. Huangyan Water Supply (as target company).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, as at the Latest Practicable Date, each of the Vendor and Huangyan Water Supply is an indirect wholly-owned subsidiary of Huangyan SCIOG, the holding company of Yongning Financial Consulting, which is a substantial Shareholder holding approximately 13.34% of the total issued share capital of the Company. Accordingly, each of the Vendor and Huangyan Water Supply is an associate of Yongning Financial Consulting and a connected person of the Company. The Vendor and Huangyan Water Supply are ultimately wholly-owned by the Finance Bureau of Huangyan District of Taizhou* (台州市黃岩區財政局).

Subject matter

Pursuant to the Huangyan Equity Transfer Agreement, the Vendor conditionally agreed to sell, and the Company conditionally agreed to purchase, 45% equity interest in Huangyan Water Supply, subject to the terms and conditions thereof.

LETTER FROM THE BOARD

Consideration and adjustment thereto

The consideration for the Acquisition shall be of a base amount of RMB116.27 million, subject to adjustment, and shall be paid by the Company to the Vendor in cash as follows:

1. RMB34.881 million (being 30% of the consideration) (the “**First Instalment of Consideration**”) is payable within 15 Business Days after satisfaction (or waiver by the Company) of the following conditions precedent:
 - (a) the Huangyan Equity Transfer Agreement having been executed and become effective;
 - (b) all qualification certifications having been obtained by Huangyan Water Supply in respect of its restructuring from a collective enterprise (全民所有制企業) to a limited liability company (the “**Huangyan Restructuring**”);
 - (c) the written consents or confirmations of no objection of relevant creditors of Huangyan Water Supply having been obtained in respect of the Huangyan Restructuring and the Acquisition;
 - (d) the written confirmation from various units of the People’s Government of Huangyan District in respect of the settlement of any unsettled amount as at the Valuation Reference Date having been obtained. In the event that any of such amount remains unsettled on the date of completion of the Acquisition, such amount shall be adjusted from the Final Instalment of Consideration (as defined below); and
 - (e) all approvals or confirmation of no objection of the relevant regulatory authorities, including the competent state-owned asset management departments and the Stock Exchange (if applicable) having been obtained;
2. RMB34.881 million (being 30% of the consideration) (the “**Second Instalment of Consideration**”) is payable within 15 Business Days after completion of the Acquisition and satisfaction (or waiver by the Company) of the following conditions precedent:
 - (a) the agreement between all parties in relation to the adjustment of asset value of the swimming stadium assets of Huangyan Water Supply (including the determination method and adjustment amount etc.) with reference to the original planned use of the swimming stadium having been reached. The agreed adjustment amount shall be deducted from the Second Instalment of Consideration;

LETTER FROM THE BOARD

- (b) the water drawing permit in respect of the reservoirs involved in the Huangyan District Urban Emergency Standby Water Source Project (黃岩區城市應急備用水源工程項目) having been obtained. If such condition is not satisfied before the date of completion, the amount of RMB11.634 million (equivalent to 60% of the consideration for the assets of the said project) shall be deducted from the Second Instalment of Consideration; and
 - (c) in the event that the deduction amount as determined under sub-paragraphs 2(a) – (b) above exceeds the Second Instalment of Consideration, such excess amount shall be deducted from the Final Instalment of Consideration (as defined below); and
- 3. the remaining balance of the consideration (the “**Final Instalment of Consideration**”) is payable within 12 months after completion of the Acquisition and agreement between all parties on the audit results, consideration adjustment and loss and profit arrangements during the Transition Period having been reached, and shall be adjusted with reference to:
 - (a) the loss and/or profit (as the case may be) and unsettled amount of Huangyan Water Supply generated during the Transition Period. Special audit regarding the loss and profit and unsettled amount of Huangyan Water Supply will be conducted. The parties shall determine and adjust the Final Instalment of Consideration payable within 10 Business Days of the issuance of the special audit report;
 - (b) in respect of properties involved within the scope of the Huangyan Water Supply Valuation Report which (i) ownership registration formalities cannot be completed within 12 months after completion of the Acquisition; and (ii) will be continued to be used by Huangyan Water Supply, the appraised value of such properties as at the Valuation Reference Date shall be deducted from the Final Instalment of Consideration;
 - (c) in the event that the deduction amount as determined under sub-paragraphs 2(a) – (b) above exceeds the Second Instalment of Consideration, such excess amount shall be deducted from the Final Instalment of Consideration; and
 - (d) in the event that the condition precedent to the payment of the Second Instalment of Consideration as set out in sub-paragraph 2(b) above remains unsatisfied 12 months after completion of the Acquisition, 100% of the consideration for the relevant underlying assets shall be deducted from the Final Instalment of Consideration. In the event that such condition precedent is

LETTER FROM THE BOARD

satisfied within 12 months after completion of the Acquisition, the amount deducted from the Second Instalment of Consideration as set out in sub-paragraph 2(b) above shall be returned to the Vendor together with the Final Instalment of Consideration.

The Company and the Vendor agreed that the maximum consideration of the Acquisition payable by the Company to the Vendor subsequent to the adjustment to the consideration as set out above shall not exceed RMB127.44 million.

The consideration of the Acquisition will be satisfied by internal resources of the Group.

Basis of consideration

Based on the Huangyan Water Supply Valuation Report, the equity attributable to owners of Huangyan Water Supply as at the Valuation Reference Date, as assessed by the Independent Valuer using the asset based approach was approximately RMB283.19 million, among which approximately RMB24.82 million was attributable to Taizhou Huangyan Water Construction Co., Ltd.* (台州市黄岩水務建設有限公司) (“**Huangyan Water Construction**”), a wholly-owned subsidiary of Huangyan Water Supply.

The base consideration was determined after arm’s length negotiations between the parties to the Huangyan Equity Transfer Agreement with reference to, among other things, the aforementioned appraised value of Huangyan Water Supply less the appraised value of Huangyan Water Construction. Upon completion of the construction in progress of Huangyan Water Construction, the parties will separately agree on the consideration and settlement terms of Huangyan Water Construction and its assets. Such amount, together with the base consideration as adjusted based on the mechanism as set out in the paragraph headed “Consideration and adjustment thereto” above, shall not exceed RMB127.44 million.

Taking into account the aforesaid adjustment and the financial information of Huangyan Water Supply as set out in the paragraph headed “Information of the target” below, the Board is of the view that the consideration of the Acquisition based on the results of the Huangyan Water Supply Valuation Report is fair and reasonable.

Completion

Pursuant to the Huangyan Equity Transfer Agreement, upon fulfillment of the conditions precedent of the payment of the First Instalment of Consideration as set out in the paragraph headed “Consideration and adjustment thereto” in this circular, Huangyan Water Supply shall complete the business registration for the equity transfer (including the respective changes of directors, supervisors and senior management) with the relevant industrial and commercial administration. Completion of the Acquisition shall take place upon completion of the aforementioned business registration particulars of Huangyan Water Supply.

LETTER FROM THE BOARD

The Company and the Vendor shall use their best endeavors to procure that the aforementioned business registration for the equity transfer (including the changes of directors, supervisors and senior management) with the relevant industrial and commercial administration to be completed on or before 31 December 2021. There is no long stop date in the Huangyan Equity Transfer Agreement.

Upon completion, as the Group will hold not more than 50% interest in Huangyan Water Supply and the Group will have no control over the board of Huangyan Water Supply, Huangyan Water Supply will be accounted for as an associate of the Company in the consolidated financial statements of the Company.

Effective date

The Huangyan Equity Transfer Agreement shall be established from the date when it is signed and sealed by the legal representatives or authorised representatives of the parties, and shall take effect from the date when the following conditions are fulfilled:

- (a) all decision-making and approval required in relation to the transactions contemplated under the Huangyan Equity Transfer Agreement having been obtained by the Vendor;
- (b) the Huangyan Water Supply Valuation Report having been approved or registered with the competent state-owned asset management departments; and
- (c) approvals of the Board and Shareholders' resolutions of the Company to approve the transactions contemplated under the Huangyan Equity Transfer Agreement having been obtained.

Termination

The Huangyan Equity Transfer Agreement may be terminated prior to the completion:

- (a) with the consent of all the parties;
- (b) by the Company in the event there has been material adverse change to Huangyan Water Supply; or
- (c) if any of the parties committed a material breach of any representations, guarantees, undertakings or obligations under the Huangyan Equity Transfer Agreement and such breach is not remedied by the defaulting party within 30 days upon the issue of written notice by the non-defaulting party, the non-defaulting party is entitled to terminate the Huangyan Equity Transfer Agreement.

LETTER FROM THE BOARD

Post-completion adjustments

Pursuant to the Huangyan Equity Transfer Agreement, after completion of the Acquisition:

- (a) if any of the registered land involved within the scope of the Huangyan Water Supply Valuation Report is expropriated by the government, the land appreciation income incurred in relation thereto shall belong to the Vendor and shall be calculated based on the formula below:

Land appreciation income = Land resumption fee – Appraised value of the expropriated land – Capital cost

The aforementioned capital cost shall belong to the Company and shall be calculated based on the formula below:

Capital cost = Appraised value of the expropriated land x the consideration paid by the Company in respect of the Acquisition x Annual capital cost (being the prevailing bank loan benchmark interest rate) x Year; and

- (b) if any of the registered properties involved within the scope of the Huangyan Water Supply Valuation Report is demolished by the government, the property appreciation income incurred in relation thereto shall belong to the Vendor and shall be calculated based on the formula below:

Property appreciation income = Demolition compensation – Net book value of the demolished property – Disposal costs (if any)

Where resettlement properties are offered, the property appreciation income shall be calculated based on the formula below:

Property appreciation income = Appraised value of the property (or resettlement compensation) – Net book value of the demolished property – Disposal costs (if any).

Board representation

Upon completion of the Acquisition, the board of directors of Huangyan Water Supply shall be comprised of five directors, of which the Company shall be entitled to nominate two directors and the chairman. The supervisory committee of Huangyan Water Supply shall be comprised of three supervisors, of which the Company shall be entitled to nominate one supervisor.

LETTER FROM THE BOARD

Information of the target

Huangyan Water Supply principally engages in the business of centralised water supply services in Huangyan District of Taizhou. As at the Latest Practicable Date, Huangyan Water Supply is directly wholly-owned by the Vendor, which first acquired the entire equity interest in Huangyan Water Supply in August 2018 at nil consideration pursuant to the “Notice on Gratuitous Transfer of Assets (Equity) of Taizhou Huangyan Water Conservancy Development Group Co., Ltd. (Huang Guozi [2018] No. 35)”《關於台州市黃岩水利發展集團有限公司重組資產(股權)無償劃轉的通知》(黃國資[2018]35號) issued by the State-owned Assets Administration of Huangyan District of Taizhou (台州市黃岩區國有資產管理局).

Huangyan Water Supply holds the following wholly-owned subsidiaries:

Name of subsidiary	Principal business of the subsidiary
Huangyan Water Construction	Construction and management of water engineering project and centralised municipal water supply services
Taizhou Huangyan Ningchuan Water Supply Co., Ltd.* (台州市黃岩寧川供水有限公司)	Production and supply of tap water and pipeline and equipment installation

Set out below is the key unaudited financial information of Huangyan Water Supply for the two financial years ended 31 December 2019 and 2020 and the five months ended 31 May 2021:

	For the year ended		For the
	31 December	31 December	five months
	2019	2020	ended
	<i>RMB'000</i>	<i>RMB'000</i>	<i>31 May 2021</i>
			<i>RMB'000</i>
Revenue	182,116	193,132	74,251
Profit/(loss) before tax	17,949	15,429	(6,548)
Profit/(loss) after tax	<u>12,630</u>	<u>10,647</u>	<u>(5,752)</u>

The results of operation of Huangyan Water Supply are subject to fluctuations due to seasonality. The sales of tap water fluctuate according to the water consumption of the area, which generally drops in winter seasons and rises in summer seasons. Besides, the cost of repair and maintenance and water loss due to higher pipeline leakage rate in winter seasons is generally higher than that of the summer seasons as water pipelines are more vulnerable to suffer from frozen cracks in winter.

As such, the net loss after tax of approximately RMB5.8 million for the five months ended 31 May 2021 of Huangyan Water Supply was primarily due to, as aforementioned, (i) the decrease in sales of tap water in slack season; (ii) higher repair and maintenance costs during the period; (iii) higher water loss attributable to higher pipeline leakage rate; and (iv) the relatively thinner gross profit margin for the period due to the decrease in sales for the period while the fixed costs, such as depreciation expenses and staff costs, of Huangyan Water Supply remained stable.

LETTER FROM THE BOARD

Based on the unaudited financial statements of Huangyan Water Supply, Huangyan Water Supply had been continuously making profit during the three years ended 31 December 2020, despite a net loss after tax recorded for the five months ended 31 May 2020. Taking into account the historical financial performance of Huangyan Water Supply and the seasonality of its operation as illustrated above, the Board is of the view that Huangyan Water Supply will continue to make profit in the long run, including the year ending 31 December 2021, and will be able to contribute stable additional income to the Group in the future. Given the benefits of the Acquisition to be accrued to the Group as detailed in the paragraph headed “Reasons for and benefits of the Acquisition” below, including, among others, the expected expansion of the Group’s geographical coverage of its water supply network to Huangyan District and larger economies of scale to be enjoyed by the Group, the Directors are of the view that the Acquisition is in the interest of the Company and the Independent Shareholders as a whole.

Under the Hong Kong accounting standard, the unaudited net assets and equity attributable to owners of Huangyan Water Supply as at 31 May 2021 amounted to approximately RMB16.26 million and RMB16.26 million, respectively. The entire equity interest of Huangyan Water Supply as at 30 April 2021 as appraised by the Independent Valuer amounted to approximately RMB283.19 million, and the 45% equity interest in Huangyan Water Supply to be acquired by the Company amounted to approximately RMB127.44 million accordingly.

The difference between the unaudited net assets value and the valuation of the equity interest of Huangyan Water Supply as set out above is mainly due to different treatment of certain deferred government grants as at 31 May 2021 and net employee defined benefit plan liabilities of approximately RMB53.4 million as at 31 May 2021 (the “**Employee Liabilities**”). In computing the unaudited net assets value, the deferred grants and the Employee Liabilities were recognised as non-current liabilities, while in computing the valuation of the equity interest, the deferred grants of approximately RMB132.9 million were appraised as nil fair value. As confirmed by the Independent Valuer, such deferred grants were originally granted by government authorities for the purpose of certain water supply related construction projects of Huangyan Water Supply, which have reached completion as at the Latest Practicable Date. The Directors have discussed with the Independent Valuer, the PRC auditor of Huangyan Water Supply and the reporting accountants of the Company, and confirmed that Huangyan Water Supply does not have to pay such deferred grants in the future. Such deferred grants will be recorded in the financial statements of Huangyan Water Supply and be amortized over the estimated useful lives of the relevant construction projects.

With regard to Employee Liabilities, they were not taken into consideration under the financial statements of Huangyan Water Supply prepared under PRC accounting standards, which were relied on by the Independent Valuer in preparing the Huangyan Water Supply Valuation Report. Based on the Company’s discussion with the PRC auditor of Huangyan Water Supply and the reporting accountants of the Company, the Company is given to understand that employee benefits, including the Employee Liabilities, shall be accounted for under Hong Kong Accounting Standard 19 “Employee Benefits”, which states that an entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity’s informal

LETTER FROM THE BOARD

practices. Pursuant to Hong Kong Accounting Standard 19 “Employee Benefits”, a constructive obligation arises from an established or published practice of an entity which creates valid expectations on the employees that it will discharge the obligation. On the other hand, such obligation is not expressly required under the PRC Accounting Standards for Business Enterprises No. 9 – Wages and Salaries of Employees. Subject to promulgation of new government policies which may allow pension obligation not to be borne by the relevant entity, Huangyan Water Supply may need to pay the Employee Liabilities in the future. Since the Independent Valuer has relied on the financial statements of Huangyan Water Supply prepared under PRC accounting standards which did not require the Employee Liabilities to be accounted for, the Employee Liabilities were not taken into consideration in the appraised value of the entire equity interest of Huangyan Water Supply as at 30 April 2021.

Furthermore, a difference between the unaudited net assets value and the valuation of the equity interest of Huangyan Water Supply in the amount of approximately RMB86.7 million was due to the net effect of the revaluation on the assets level of Huangyan Water Supply by the Independent Valuer on the assets of Huangyan Water Supply as at the Valuation Reference Date. These assets were appraised by the Independent Valuer taking into account of their market value as at the Valuation Reference Date, while the unaudited net assets value of such assets as at 31 May 2021 were measured at historical costs under the Hong Kong accounting standard. For further details of the aforesaid difference, please refer to the letter from Red Sun as set out on pages 42 to 59 of this circular.

Reasons for and benefits of the Acquisition

With a view to improving the profitability of the Group, the Company has been actively looking for attractive merger and acquisition opportunities. Further, as stressed by the Municipal Committee Office of Taizhou (中共台州市委辦公室) and the Taizhou Municipal People’s Government Office (台州市人民政府辦公室), the integration of water supply in Taizhou is essential for improving people’s livelihood, promoting integrated development of urban areas, efficient use of water and the transformation and upgrade of water supply business in Taizhou.

In May 2021, the Company entered into equity transfer agreements to acquire 45% equity interest in three water supply companies in Jiaojiang and Luqiao Districts of Taizhou. Through expanding its water supply network and water supply facilities in Huangyan District of Taizhou, the Acquisition is believed to be instrumental to the Group’s effort in integrating the urban and rural water supply system across all districts in Taizhou and benefiting more users. As such, the Acquisition will allow the Group to further strengthen the Group’s position as the leading water supply service provider in Taizhou.

Taking into account the aforementioned factors, the Directors (including the independent non-executive Directors whose view is based on the advice from Red Sun) consider that the terms and conditions of the Huangyan Equity Transfer Agreement are fair and reasonable and are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Information of the parties

The Company

The Company is a leading water supply service provider in Taizhou principally engaged in the supply of raw water and municipal water. The Company also supplies tap water directly to end-users and engages in the installation of the water pipelines for distributing tap water to its end-users in Taizhou.

The Vendor

The Vendor principally engages in investment and asset management and construction, operation and management of water conservancy and hydropower projects. As at the Latest Practicable Date, the Vendor is ultimately wholly-owned by the Finance Bureau of Huangyan District of Taizhou.

Huangyan Water Supply

Huangyan Water Supply principally engages in the business of centralised water supply services in Huangyan District of Taizhou. As at the Latest Practicable Date, Huangyan Water Supply is directly wholly-owned by the Vendor, which is in turn ultimately wholly-owned by the Finance Bureau of Huangyan District of Taizhou. Upon completion of the Acquisition, Huangyan Water Supply will be held as to 55% and 45% by the Vendor and the Company, respectively.

Implications under the Listing Rules

As one or more of the applicable percentage ratios in respect of the Acquisition exceed(s) 5% but all of them are less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Vendor is an indirect wholly-owned subsidiary of Huangyan SCIOG, the holding company of Yongning Financial Consulting, which is a substantial Shareholder holding approximately 13.34% of the total issued share capital of the Company. Accordingly, each of the Vendor and Huangyan Water Supply is a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules by virtue of being an associate of Yongning Financial Consulting. The Acquisition also constitutes a connected transaction of the Company for the purpose of Chapter 14A of the Listing Rules, and is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Ms. Fang Ya, a non-executive Director, is a director nominated by Yongning Financial Consulting, which is a subsidiary of Huangyan SCIOG, the holding company of Huangyan Water Supply, she is deemed to have a material interest in the Huangyan Equity Transfer Agreement, and has abstained from voting on the board resolutions in respect of the Huangyan Equity Transfer Agreement. Save as disclosed above, none of the Directors has material interest in the Acquisition and therefore no other Director has abstained from voting on such board resolution.

LETTER FROM THE BOARD

Independent Board Committee and independent financial adviser

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in relation to the Huangyan Equity Transfer Agreement and the transactions contemplated thereunder. Red Sun has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to the foregoing matters.

Additional information

Your attention is drawn to (i) the letter from the Independent Board Committee as set out on pages 40 to 41 of this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM; and (ii) the letter from Red Sun as set out on pages 42 to 59 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Huangyan Equity Transfer Agreement and the transactions contemplated thereunder.

Your attention is also drawn to the summary of the Huangyan Water Supply Valuation Report set out in Appendix I to this circular.

2. FURTHER REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

References are made to the section headed “Connected Transactions” in the Prospectus and the announcement of the Company dated 13 August 2020 in relation to, among other things, (i) the 2019 Huangyan Water Supply Framework Agreement and the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement; and (ii) the Supplemental 2019 Huangyan Water Supply Framework Agreement, pursuant to which the Company and Huangyan Water Supply revised the then annual cap for the year ended 31 December 2020 for the transactions contemplated under the 2019 Huangyan Water Supply Framework Agreement.

During a recent review by the Board on the existing continuing connected transactions of the Group, the Directors anticipated that the transactions pursuant to each of the 2019 Huangyan Water Supply Framework Agreement and the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement will exceed the previous sales projection and that the Original Annual Caps will not be sufficient to meet the Group’s requirements for the financial year ending 31 December 2021. The Company proposes to revise the Original Annual Caps.

(A) 2019 Huangyan Water Supply Framework Agreement

Pursuant to the 2019 Huangyan Water Supply Framework Agreement, the Company agreed to provide raw water supply services to Huangyan Water Supply from 31 December 2019 to 31 December 2021 (both days inclusive). On 13 August 2020, the original annual cap under the 2019 Huangyan Water Supply Framework Agreement for the year ended 31 December 2020 was revised under the Supplemental 2019 Huangyan Water Supply Framework Agreement.

LETTER FROM THE BOARD

Transaction value for the six months ended 30 June 2021

Based on the Company's unaudited financial information as at 30 June 2021, the total transaction amount of raw water supply services provided by the Company to Huangyan Water Supply under the 2019 Huangyan Water Supply Framework Agreement for the six months ended 30 June 2021 amounted to approximately RMB22.95 million.

The Directors confirm that, based on the Company's unaudited financial information, the annual cap for the provision of raw water supply services under the 2019 Huangyan Water Supply Framework Agreement for the year ending 31 December 2021 has not been exceeded up to the Latest Practicable Date.

The Further Revised Huangyan Annual Cap

	For the year ending 31 December 2021 (RMB'000)
Original Huangyan Annual Cap	41,829
Further Revised Huangyan Annual Cap	<u>50,620</u>

Basis for the Further Revised Huangyan Annual Cap

The Further Revised Huangyan Annual Cap for the transactions contemplated under the Second Supplemental 2019 Huangyan Water Supply Framework Agreement was determined with reference to the following factors:

- (1) The historical transaction amount of raw water supply services provided by the Company to Huangyan Water Supply for the six months ended 30 June 2021 recorded in the unaudited financial information of the Company accounted for approximately 54.9% of the Original Huangyan Annual Cap. Based on the historical transaction value, the Group generally records higher water supply volume in the second half of the year than in the first. The Directors expect that the Original Huangyan Annual Cap will not be sufficient to meet the Group's requirements for the year ending 31 December 2021.
- (2) As a local reservoir which also supplied raw water to Huangyan Water Supply has been shut down for reinforcement project since the fourth quarter of 2020 and such reinforcement project may not be completed within a short period, Huangyan Water Supply would require additional raw water supply from the Company to replace the original raw water supply from such local reservoir. Accordingly, demand for raw water supply services from Huangyan Water Supply for the year ending 31 December 2021 is expected to increase.

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- (3) With the continued coronavirus pandemic which has heightened people's health and hygiene awareness, there has been a higher frequency of cleaning in both household and commercial settings. Such change in the cleaning habits of the general public in Taizhou has led to an expected increase in residential and non-residential water consumption, and thus an estimated increase in demand of raw water supply services from Huangyan Water Supply for the year ending 31 December 2021.

The Second Supplemental 2019 Huangyan Water Supply Framework Agreement

On 1 September 2021, the Company and Huangyan Water Supply entered into the Second Supplemental 2019 Huangyan Water Supply Framework Agreement, pursuant to which the parties agreed to revise the annual cap for the provision of raw water supply services for the year ending 31 December 2021 from RMB41,828,556 to RMB50,620,000. Save for the Further Revised Huangyan Annual Cap, all other terms and conditions of the 2019 Huangyan Water Supply Framework Agreement (as supplemented by the Supplemental 2019 Huangyan Water Supply Framework Agreement) remain unchanged.

(B) 2019 Taizhou Luqiao Raw Water Supply Framework Agreement

Pursuant to the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement, the Company agreed to provide raw water supply services to Taizhou Luqiao Water Supply from 31 December 2019 to 31 December 2021 (both days inclusive).

Transaction value for the six months ended 30 June 2021

Based on the Company's unaudited financial information as at 30 June 2021, the total transaction amount of raw water supply services provided by the Company to Taizhou Luqiao Water Supply under the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement for the six months ended 30 June 2021 amounted to approximately RMB16.84 million.

The Directors confirm that, based on the Company's unaudited financial information, the annual cap for the provision of raw water supply services under the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement for the year ending 31 December 2021 has not been exceeded up to the Latest Practicable Date.

The Revised Taizhou Luqiao Raw Water Annual Cap

	For the year ending 31 December 2021 (RMB'000)
Original Taizhou Luqiao Raw Water Annual Cap	32,424
Revised Taizhou Luqiao Raw Water Annual Cap	<u>36,000</u>

LETTER FROM THE BOARD

Basis for the Revised Taizhou Luqiao Raw Water Annual Cap

The Revised Taizhou Luqiao Raw Water Annual Cap for the transactions contemplated under the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement was determined with reference to the following factors:

- (1) The historical transaction amount of raw water supply services provided by the Company to Taizhou Luqiao Water Supply for the six months ended 30 June 2021 recorded in the unaudited financial information of the Company accounted for approximately 51.9% of the Original Taizhou Luqiao Raw Water Annual Cap. Based on the historical transaction value, the Group generally records higher water supply volume in the second half of the year than in the first. The Directors expect that the Original Taizhou Luqiao Raw Water Annual Cap will not be sufficient to meet the Group's requirements for the year ending 31 December 2021.
- (2) With the continued coronavirus pandemic which has heightened people's health and hygiene awareness, there has been a higher frequency of cleaning in both household and commercial settings. Such change in the cleaning habits of the general public in Taizhou has led to an expected increase in residential and non-residential water consumption, and thus an estimated increase in demand of raw water supply services from Taizhou Luqiao Water Supply for the year ending 31 December 2021.
- (3) Due to the increased demand of municipal water in other areas in Taizhou, the Company has increased the allocation of municipal water to such areas. However, due to the limitation of the municipal water supply capacity of the Taizhou Water Supply System (Phase II) of the Group, the Company has to decrease the municipal water supplied to Taizhou Luqiao Water Supply for safety reasons. In order to replenish such decrease and satisfy the total water demand from Taizhou Luqiao Water Supply, the Company has increased the allocation of raw water supply to Taizhou Luqiao Water Supply through the Taizhou Water Supply System (Phase I) of the Group. The Directors consider that the Revised Taizhou Luqiao Raw Water Annual Cap would allow the Group to meet the estimated increase in allocation of raw water supply to Taizhou Luqiao Water Supply for the year ending 31 December 2021.

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The Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement

On 1 September 2021, the Company and Taizhou Luqiao Water Supply entered into the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement, pursuant to which the parties agreed to revise the annual cap for the provision of raw water supply services for the year ending 31 December 2021 from RMB32,423,715 to RMB36,000,000. Save for the Revised Taizhou Luqiao Raw Water Annual Cap, all other terms and conditions of the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement remain unchanged.

In respect of the continuing connected transactions with Taizhou Luqiao Water Supply, Taizhou City Water has also entered into a municipal water supply framework agreement with Taizhou Luqiao Water Supply on 27 October 2019 (the “**2019 Taizhou Luqiao Municipal Water Supply Framework Agreement**”), pursuant to which Taizhou City Water agreed to provide Taizhou Luqiao Water Supply with municipal water supply services. The annual cap of the transactions under the 2019 Taizhou Luqiao Municipal Water Supply Framework Agreement (as supplemented by a supplemental agreement dated 13 August 2020 (the “**Supplemental 2019 Taizhou Luqiao Municipal Water Supply Framework Agreement**”)) for the year ended/ending 31 December 2019, 2020 and 2021 are RMB64,707,146, RMB71,315,448 and RMB68,581,538, respectively. For further details of the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement and the 2019 Taizhou Luqiao Municipal Water Supply Framework Agreement, please refer to the section headed “Connected Transactions” of the Prospectus and the announcement of the Company dated 13 August 2020.

Pursuant to Rules 14A.82 and 14A.83 of the Listing Rules, the transactions under the 2019 Taizhou Luqiao Municipal Water Supply Framework Agreement (as supplemented by the Supplemental 2019 Taizhou Luqiao Municipal Water Supply Framework Agreement) and the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement (collectively, the “**2019 Taizhou Luqiao Water Supply Framework Agreements**”) have been aggregated.

Reasons for and benefits of revising the Original Annual Caps

In view of increased demand in raw water supply services from Huangyan Water Supply and Taizhou Luqiao Water Supply, the Board anticipates that the transactions with Huangyan Water Supply and Taizhou Luqiao Water Supply pursuant to the 2019 Huangyan Water Supply Framework Agreement and the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement, respectively, will exceed the original sales projection and that the Original Annual Caps will not be sufficient to cover all transactions contemplated under the 2019 Huangyan Water Supply Framework Agreement and the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement for the year ending 31 December 2021. Accordingly, the Company proposes to revise the Original Annual Caps and enter into the Supplemental 2019

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CCT Agreements to maintain a stable supply of raw water to Huangyan Water Supply and Taizhou Luqiao Water Supply, cater the changes in the market demands and ensure the Company's income and business growth.

In light of the above, the Directors (including the independent non-executive Directors whose view is based on the advice from Honestum) consider that the Supplemental 2019 CCT Agreements are entered into in the usual and ordinary course of business of the Group, are conducted on an arm's length basis and on normal commercial terms between the Group and each of Huangyan Water Supply and Taizhou Luqiao Water Supply, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Reference is made to the section headed "Connected Transactions" in the Prospectus in relation to, among other things, the 2019 Huangyan Water Supply Framework Agreement. As the term of the 2019 Huangyan Water Supply Framework Agreement and the annual caps for the continuing connected transactions thereunder will expire on 31 December 2021, on 1 September 2021, the Company has entered into the 2021 Huangyan Water Supply Framework Agreement to renew the aforementioned agreement.

2021 Huangyan Water Supply Framework Agreement

The principal terms of the 2021 Huangyan Water Supply Framework Agreement are set out below:

Date	1 September 2021
Parties	1. The Company; and 2. Huangyan Water Supply
Term	A renewable term commencing from 1 January 2022 to 31 December 2024 (both days inclusive)
Subject matter	The Company agreed to provide raw water supply services to Huangyan Water Supply
Pricing guideline	The prices of the sales of raw water supply services provided by the Company to Huangyan Water Supply shall be determined on the basis of (i) the water prices as approved by Taizhou DRC; and (ii) the price adjustment as fixed and promulgated by Taizhou DRC

LETTER FROM THE BOARD

Annual cap and basis for determining the annual cap

The historical transaction amount between the Company and Huangyan Water Supply is as follows:

	Year ended 31 December		Six months ended 30 June
	2019	2020	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Historical transaction amount	38,733	39,540	22,950

The annual caps for the transactions contemplated under the 2019 Huangyan Water Supply Framework Agreement are set out below:

	Year ended 31 December		Year ending 31 December
	2019	2020	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Historical annual caps	38,941	45,720 ⁽¹⁾	50,620 ⁽²⁾

Notes:

- (1) The annual cap as revised under the Supplemental 2019 Huangyan Water Supply Framework Agreement.
- (2) The annual cap as revised under the Second Supplemental 2019 Huangyan Water Supply Framework Agreement.

The annual caps for the transactions contemplated under the 2021 Huangyan Water Supply Framework Agreement are set out below:

	Year ending 31 December		
	2022	2023	2024
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Expected annual caps	55,250	56,790	58,480

The above expected annual caps were determined with reference to the (i) historical transaction figures as listed above; (ii) the expected demand of raw water services from Huangyan Water Supply taking into account the shut down of the local reservoir in Huangyan and the change in cleaning habits of the general public due to the continued coronavirus outbreak; and (iii) the water prices as approved by Taizhou DRC.

LETTER FROM THE BOARD

Reasons for and benefits of renewing the continuing connected transactions

The Company has been providing raw water supply services in or incidental to its ordinary and usual course of business to Huangyan Water Supply, which will then provide tap water after purification of raw water for use by the residents and enterprises in Huangyan District of Taizhou. The Company considers that the transactions contemplated under the 2021 Huangyan Water Supply Framework Agreement will allow the Group to continue to serve end-users in Huangyan district of Taizhou, and thus contribute to the turnover and the performance of the Group.

In light of the above, the Directors (including the independent non-executive Directors whose view is based on the advice from Honestum) consider that the 2021 Huangyan Water Supply Framework Agreement is entered into in the usual and ordinary course of business of the Group, is conducted on an arm's length basis and on normal commercial terms between the Group and Huangyan Water Supply, and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Internal control policies and procedures

In order to ensure that the pricing mechanism and terms of the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement are fair and reasonable and no less favourable than the terms provided by any independent third parties to the Group, the Group has established a series of internal control procedures as follows:

- (1) The finance department of the Company shall regularly monitor the caps of connected transactions, count the accumulated amounts of transactions with Huangyan Water Supply and Taizhou Luqiao Water Supply by the end of the month on a monthly basis and report to the management the unutilised balance of the annual caps by the end of the each month, to ensure the applicable annual caps are not exceeded. When the projected transaction amount approaches or reaches the applicable annual caps, the Company shall revise the annual cap in accordance with the internal control procedures governing the connected transactions.
- (2) The finance department of the Company will regularly keep abreast of the changes in policies for the water price promulgated by Taizhou DRC from time to time to ensure that the water price approved by the government authorities is timely executed.
- (3) The production departments of the Group will closely monitor and report any circumstances which may have impact on the applicable annual cap under the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement such as water price adjustment as fixed and promulgated by the relevant government authorities.

LETTER FROM THE BOARD

- (4) The external auditors of the Group will issue a letter to the Board in relation to the continuing connected transactions, including the transactions under the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, for each financial year in accordance with Rule 14A.56 of the Listing Rules.
- (5) The independent non-executive Directors will conduct an annual review with respect to the continuing connected transactions, including the transactions under the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, throughout the preceding financial year, and give confirmation in accordance with Rules 14A.55 and 14A.71 of the Listing Rules.

Information of the parties

The Company

The Company is a leading water supply service provider in Taizhou principally engaged in the supply of raw water and municipal water. The Company also supplies tap water directly to end-users and engages in the installation of the water pipelines for distributing tap water to its end-users in Taizhou.

Huangyan Water Supply

Huangyan Water Supply principally engages in the business of centralised water supply services in Huangyan District of Taizhou. As at the Latest Practicable Date, Huangyan Water Supply is directly wholly-owned by the Vendor, which is in turn ultimately wholly-owned by the Finance Bureau of Huangyan District of Taizhou. Upon completion of the Acquisition, Huangyan Water Supply will be held as to 55% and 45% by the Vendor and the Company, respectively.

Taizhou Luqiao Water Supply

Taizhou Luqiao Water Supply principally engages in the business of centralized water supply services in Luqiao District of Taizhou. As at the Latest Practicable Date, Taizhou Luqiao Water Supply is ultimately owned as to 96.8% and 3.2% by the State-owned Assets Administration Commission of Luqiao District* (路橋區國有資產管理委員會) and Zhejiang Provincial Department of Finance (浙江省財政廳), respectively.

LETTER FROM THE BOARD

Implications under the Listing Rules

As at the Latest Practicable Date, Huangyan Water Supply is indirectly wholly-owned by Huangyan SCIOG and hence a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules by virtue of being an associate of Yongning Financial Consulting. Upon completion of the Acquisition, Huangyan Water Supply will be indirectly held as to 55% by Huangyan SCIOG, and will therefore continue to be a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules by virtue of being an associate of Yongning Financial Consulting.

Taizhou Luqiao Water Supply is an indirect wholly-owned subsidiary of Taizhou Luqiao Public Assets, a substantial Shareholder at the time when the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement was entered into, hence the Revised Taizhou Luqiao Raw Water Annual Cap under the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement is subject to the requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the respective Further Revised Annual Caps for the transactions contemplated under the Second Supplemental 2019 Huangyan Water Supply Framework Agreement and the 2019 Taizhou Luqiao Water Supply Framework Agreements, on an annual basis, exceed(s) 5%, such continuing connected transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the 2021 Huangyan Water Supply Framework Agreement, on an annual basis, exceed(s) 5%, the 2021 Huangyan Water Supply Framework Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Ms. Fang Ya, a non-executive Director, is a director nominated by Yongning Financial Consulting, which is a subsidiary of Huangyan SCIOG, the holding company of Huangyan Water Supply, she is deemed to have a material interest in the Second Supplemental 2019 Huangyan Water Supply Framework Agreement and the 2021 Huangyan Water Supply Framework Agreement, and has abstained from voting on the board resolutions in respect of the Second Supplemental 2019 Huangyan Water Supply Framework Agreement and the 2021 Huangyan Water Supply Framework Agreement.

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As Ms. Huang Yuyan, a non-executive Director, is the deputy general manager of and a Director nominated by Taizhou Luqiao Public Assets, the holding company of Taizhou Luqiao Water Supply, she is deemed to have a material interest in the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement. Ms. Huang Yuyan has abstained from voting on the board resolutions in respect of the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement.

Save as disclosed above, none of the Directors has material interest in the Huangyan Equity Transfer Agreement, the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, and therefore no other Director has abstained from voting on such board resolutions.

Independent Board Committee and independent financial adviser

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in relation to the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder. Honestum has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to the foregoing matters.

Additional information

Your attention is drawn to (i) the letter from the Independent Board Committee as set out on pages 40 to 41 of this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM; and (ii) the letter from Honestum as set out on pages 60 to 74 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder.

4. PROPOSED ISSUE OF BONDS

In order to cater for the business development needs of the Company, on 25 August 2021, the Board has resolved to submit to the Shareholders for consideration and approval the proposed issue of the Bonds of not more than US\$200 million (or equivalent foreign currency).

According to the relevant laws and regulations of the PRC and the Articles of Association, the proposed issue of the Bonds is subject to the approval of the Shareholders by way of special resolution.

The proposed arrangements for the issue of the Bonds are as follows:

Issuer: The Company

LETTER FROM THE BOARD

Issue size:	No more than US\$200 million (or equivalent foreign currency), in single or multiple tranches
Type:	Senior unsecured bonds
Term:	Not more than five years since the date of issue and can be either of single term or multiple terms. The term of issue of the Bonds will be determined subject to the capital requirement of the Company and market conditions prevailing at the time of issue.
Interest rate:	Fixed interest to be determined at the time of issue
Place of issue:	Hong Kong. The Company will apply to the Stock Exchange for the listing of, and permission to deal with the Bonds.
Target investors:	The Bonds will be offered and sold outside the United States to non-United States persons in reliance on Regulation S under the United States Securities Act of 1933
Use of proceeds:	For projects construction, meeting the capital needs of business development of the Company and replenishing working capital of the Company
Source of repayment:	The Bonds shall be repaid with revenue generating from the business operation of the Company and/or credit facilities granted by financial institutions, etc.

The resolution on the issue of the Bonds shall be effective from the date of approval at the EGM till the completion of the issue of the Bonds.

The proposed issue of the Bonds is, if approved at the EGM, still subject to filing and registration with the National Development and Reform Commission of the PRC and other relevant regulatory authorities.

LETTER FROM THE BOARD

Authorisation to the Board or the executive Directors to deal with the matters relating to the issue of the Bonds

In order to improve the efficiency to issue the Bonds, it is proposed that a special resolution be passed by the Shareholders generally and unconditionally at the EGM to authorise the Board or the executive Directors to deal with the matters relating to the issue of the Bonds. The authorisation shall include but not limited to the following matters:

- (1) to determine and amend the issue terms, conditions and other matters in relation to the proposed issue of the Bonds, including but not limited to the issue method, type, time, size, target investors, place of listing, denominated foreign currency, maturity, coupon rate, issue price, whether the Bonds will be issued in tranches and number of tranches, termination of the issue, rating arrangement, guarantee arrangement (where applicable), establishment of a bank account and passing of the required resolutions in relation thereto and, within the scope as approved by the Shareholders at General Meeting, determine or adjust the use of proceeds;
- (2) to authorise the Board or the executive Directors to handle all matters related to the listing of the Bonds;
- (3) to determine the appointment of and payment of professional fees to intermediaries involved in the issue of the Bonds;
- (4) within the scope of the above authorisation, prepare, modify, sign, confirm, execute, report and publish all the application materials, agreements, contracts and other documents in relation to the issue of the Bonds (including but not limited to announcements, terms and conditions, offering circular, subscription agreement, trust agreement, agent agreement, engagement agreements of intermediaries, listing application documents and other disclosure documents) and handle the relevant reporting, registration, listing application and information disclosure in relation to the issue of the Bonds;
- (5) save and except for matters which shall be subject to the approval of the Shareholders in general meeting pursuant to the requirements of applicable laws, regulations and the Articles of Association, to make corresponding adjustment to the relevant matters regarding the specific plan for the issue of the Bonds according to the opinions of the regulatory authorities (if any) in the events of change in the policies of regulatory authorities or change in market condition;
- (6) to handle matters in relation to the listing of the Bonds, including but not limited to preparing, modifying and submitting the application materials as required by the relevant regulatory authorities, signing the relevant application and other legal documents, and handling the approval, registration and filing procedures of the relevant regulatory authorities and stock exchanges;
- (7) to handle other relevant matters of the issue of the Bonds including custody registration, interest payment and redemption; and

LETTER FROM THE BOARD

- (8) to deal with any other matters relating to the issue and the listing of the Bonds.

The above authorisation shall be effective from the date of the approval at the EGM till the date of completion of the aforesaid matters.

Reasons and benefit for the proposed issue of the Bonds

The issue of the Bonds is to cater for the business development needs of the Company. The Board considers that the issuance of Bonds will benefit the Company in ensuring the openness of the bond financing channels, optimising financing structure, reducing financing costs, maintaining financial stability and saving finance costs. Therefore, the Board considers that the proposed issue of Bonds is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. PROPOSED APPOINTMENT OF DIRECTORS

On 25 August 2021, the Board has resolved to appoint (i) Mr. Lin Yang (“**Mr. Lin**”) as a non-executive Director and a member of the strategy committee of the Board; and (ii) Mr. Huang Chun (“**Mr. Huang**”) as an independent non-executive Director and a member of each of the remuneration committee, nomination committee and strategy committee of the Board, each for a term commencing from the date of approval at the EGM until the expiration of the term of the fifth session of the Board. The appointment of each of Mr. Lin and Mr. Huang will only become effective after being approved by the Shareholders at the EGM.

The biographical details of Mr. Lin and Mr. Huang which are disclosed pursuant to Rule 13.51(2) of the Listing Rules are as follows:

Mr. Lin (林楊), aged 40, is currently the general manager and party branch member (黨支部委員) of Zhejiang Taixin Asset Management Co., Ltd.* (浙江台信資產管理有限公司) (“**Zhejiang Taixin Asset**”), a substantial shareholder of the Company. He has been serving at Zhejiang Taixin Asset since September 2003 and has previously served as the deputy general manager and manager of the asset management department. Since November 2018, Mr. Lin has also been a director of Taizhou Development Investment Co., Ltd.* (台州市發展投資有限公司). Mr. Lin obtained a double degree in laws and economics from Zhongnan University of Economics and Law in June 2003, and was accredited as an intermediate economist by the Taizhou Personnel Bureau* (台州市人事局) in January 2011.

Mr. Huang (黃純), aged 38, has been working at Zhejiang University of Finance and Economics since March 2012 and is currently an associate professor at the school of business administration. He has also served at various governmental and academic institutions, including (i) industrial transformation and upgrading expert of Wenling City Economic and Information Bureau* (溫嶺市經濟和信息化局) from May 2017 to April 2020; (ii) distinguished external tutor of Guizhou University of Finance and Economics from September 2017 to September 2020; (iii) distinguished consultant of Guiyang Development and Reform Commission (貴陽市發展和改革委員會) from November 2017 to

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November 2020; (iv) distinguished professor of Zunyi Normal University from November 2017 to November 2020; (v) expert consultant of Jinhua Oriental Tax Agent Co., Ltd.* (金華東方稅務師事務所有限公司) since September 2019; and (vi) part-time professor of Zhejiang Dongfang Polytechnic (浙江東方職業技術學院) since December 2019.

Mr. Huang obtained a bachelor's degree in information management and information system from Ningbo University in 2005. He further obtained a master's degree in corporate management from Guizhou University in 2008 and a PhD degree in corporate management from Zhejiang University in 2012. Mr. Huang was named as a Zhijiang Young Social Scientist (之江青年社科學者) by the Zhejiang Provincial Federation of Social Sciences* (浙江省社會科學界聯合會) in March 2021.

Save as disclosed above, each of Mr. Lin and Mr. Huang confirmed that, (1) he does not hold any other positions in the Company or any of its subsidiaries and also has not served as a director nor a supervisor in any other listed companies in the past three years; (2) he does not have any relationship with any other directors, supervisors, senior management or substantial or controlling shareholders of the Company or any of its subsidiaries; and (3) he does not have any interest in any shares of the Company within the meaning of Part XV of the SFO as at the Latest Practicable Date.

Save as disclosed above, each of Mr. Lin and Mr. Huang confirmed that, there is no other information that needs to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules, and there are no other matters concerning the appointment of each of Mr. Lin and Mr. Huang as a Director that need to be brought to the attention of the Shareholders.

The resolutions in respect of the appointment of Mr. Lin as a non-executive Director and Mr. Huang as an independent non-executive Director for the fifth session of the Board will be proposed at the EGM for consideration and approval by the Shareholders. The Shareholders will also consider and, if thought fit, approve the authority granted to the Board to determine the remuneration of Mr. Huang at the EGM in accordance with the remuneration policy of the Company. In the event that Mr. Lin and Mr. Huang are appointed as a non-executive Director and an independent non-executive Director, respectively, the Company will enter into relevant director's service contract with each of them. Pursuant to the proposed service contract, Mr. Lin will not receive any remuneration from the Company. Mr. Lin and Mr. Huang will be subject to retirement and re-election in accordance with the Articles of Association upon expiry of their term of office.

Upon the respective appointment of Mr. Lin as a non-executive Director and Mr. Huang as an independent non-executive Director being approved by the Shareholders at the EGM, Mr. Sun Hua's resignation as a non-executive director and a member of the strategy committee of the Board and Mr. Zheng Jianzhuang's resignation as independent non-executive Director and a member of each of the remuneration committee, nomination committee and strategy committee of the Board will become effective. The Board would like to take this opportunity to express its sincere gratitude to Mr. Sun Hua and Mr. Zheng Jianzhuang for their valuable contributions to the Company during their term of office.

LETTER FROM THE BOARD

6. PROPOSED INJECTION OF CAPITAL TO SUBSIDIARY

Binhai Water is principally engaged in the construction, operation and management of water diversion projects in Taizhou. As at the Latest Practicable Date, the registered capital of Binhai Water was RMB160 million and it is owned as to 51% by the Company and 49% by Taizhou City Water, a subsidiary of the Company, respectively.

In light of the expected capital requirement for the construction and operation management of the Taizhou water diversion project, the Company plans to increase the share capital of Binhai Water from RMB160 million to RMB200 million. The injection of capital will be contributed by the Company and Taizhou City Water in proportion to their existing shareholding in Binhai Water and the shareholding structure of Binhai Water will remain unchanged immediately after the completion of the proposed injection of capital.

The amount of capital injection and the shareholding structure of Binhai Water immediately before and after the proposed capital injection are as follows:

	Capital contribution before the proposed capital injection	% of shareholding immediately before the proposed capital injection	Capital proposed to be injected	Capital contribution after the proposed capital injection	% of shareholding immediately after the proposed capital injection
The Company	RMB81.6 million	51%	RMB20.4 million	RMB102 million	51%
Taizhou City Water	RMB78.4 million	49%	RMB19.6 million	RMB98 million	49%
Total	<u>RMB160 million</u>	<u>100%</u>	<u>RMB40 million</u>	<u>RMB200 million</u>	<u>100%</u>

Pursuant to the relevant provisions under the investment management policy of the Company, the injection of capital as set out above is subject to approval by the Shareholders. The Board has resolved to seek approval from the Shareholders at the EGM for the proposed injection of capital to Binhai Water.

7. PROPOSED PROVISION OF GUARANTEE

To meet the capital needs for its normal operation, Taizhou City Water has applied for a credit facility of RMB500 million from the Agricultural Bank of China Co., Ltd., Taizhou Branch at such interest rate on normal commercial terms and the Company will provide guarantee for Taizhou City Water for such credit facility application. The total amount of the guarantee to be provided by the Company under the said credit facility will be not more than RMB675 million.

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Pursuant to the relevant provisions under the management policy of the Company, the provision of guarantees as set out above is subject to approval by the Shareholders. The Board has resolved to seek approval from the Shareholders at the EGM for the proposed provision of guarantee to Taizhou City Water.

The determined limit of guarantees mentioned above represents only the contemplated and maximum amount of guarantee to be provided by the Company. The specific amount of guarantee transactions shall be subject to the guarantee agreement(s) signed with the relevant financial institution. The Company will comply with the relevant applicable requirements of the Listing Rules upon the signing of the relevant guarantee agreement(s) as and when necessary.

The provision of the above-mentioned guarantee will be carried out strictly in compliance with the requirements of the relevant laws and regulations of the PRC, the Articles of Association and the Listing Rules.

8. PROPOSED APPLICATIONS FOR CREDIT FACILITIES

To meet the Company's capital needs for normal operation and project construction, the Board proposes to apply for the following credit facilities from two financial institutions:

Name of financial institution	Facility amount to be applied for
Bank of Ningbo Co., Ltd., Taizhou Branch	Not exceeding RMB300 million
<u>SPDB Financial Leasing Co., Ltd.</u>	<u>Not exceeding RMB150 million</u>
Total	Not exceeding RMB450 million

The aforementioned credit facilities are subject to the definitive agreements to be entered into with the respective financial institutions, and does not represent the Company's actual financing amount. The Company's management may adjust the credit facilities depending on the operational needs. The final amount of the credit facilities shall be subject to the respective financial institutions' approval.

A resolution will be proposed by the Board at the EGM regarding the above applications of credit facilities and thereby authorises any executive Director to execute all facility agreements, financing agreements and other relevant documents in relation to such credit facilities and make such amendments as he sees fit and to do all such acts and things as he deems necessary or appropriate in connection with or to carry out the actions contemplated by such resolutions.

The period of authorisation in relation to the application of credit facility to Bank of Ningbo Co., Ltd., Taizhou Branch and SPDB Financial Leasing Co., Ltd. shall be 12 months commencing from the date of approval at the EGM; and from the date of approval at the EGM until 31 December 2022, respectively.

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9. PROPOSED LIMITS OF CREDIT FACILITIES

In order to improve the financing flexibility and efficiency of applications to banks for credit facilities by the Group, an ordinary resolution will be proposed at the EGM to authorise the Board and the Board to further authorise the management of the Company, generally and unconditionally, to approve and determine the applications of working capital facilities to banks and handle all the matters in relation thereto, subject to the conditions that: (i) the single working capital facility shall not exceed RMB500 million; and (ii) at the time of the relevant application, the aggregate amount of working capital facilities taken out by the Group in that financial year shall not exceed RMB2 billion. The period of authorisation shall commence from the date of approval at the EGM to the date of the annual general meeting for the year ending 31 December 2021 of the Company.

10. EGM

The form of proxy and the reply slip of the EGM are enclosed herewith.

The Huangyan Equity Transfer Agreement, the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder are subject to the approval of the Independent Shareholders by way of ordinary resolutions at the EGM. Any Shareholder with a material interest in the Huangyan Equity Transfer Agreement, the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder and his/her/its associate(s) is (are) required to abstain from voting on the ordinary resolutions approving the same.

As at the Latest Practicable Date, each of Huangyan Water Supply and the Vendor is wholly-owned by Huangyan SCIOG, the holding company of Yongning Financial Consulting, which holds approximately 13.34% of the total issued share capital of the Company. Yongning Financial Consulting and its associates will abstain from voting at the EGM in respect of the resolutions to approve the Huangyan Equity Transfer Agreement, the Second Supplemental 2019 Huangyan Water Supply Framework Agreement and the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder as a result of having a material interest therein.

As at the Latest Practicable Date, Taizhou Luqiao Water Supply is a subsidiary of Taizhou Luqiao Public Assets, which holds approximately 8.80% of the total issued share capital of the Company. Taizhou Luqiao Public Assets and its associates will abstain from voting at the EGM in respect of the resolutions to approve the the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement and the transactions contemplated thereunder as a result of having a material interest therein.

To the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, except as disclosed above, there are no other Shareholders who have an interest in the Huangyan Equity Transfer Agreement, the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder which is materially different from the

LETTER FROM THE BOARD

other Shareholders. Therefore, no other Shareholder will be required to abstain from voting at the EGM to approve the Huangyan Equity Transfer Agreement, the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder.

The proposed resolution in relation to the issue of Bonds is subject to approval by the Shareholders by way of special resolution at the EGM, which all Shareholders are entitled to vote on.

The other proposed resolutions set out in the Notice of EGM are subject to approval by the Shareholders by way of ordinary resolutions at the EGM, which all Shareholders are entitled to vote on.

For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Monday, 25 October 2021 to Thursday, 28 October 2021 (both days inclusive), during which period no transfer of Shares will be effected. In order to be eligible for attending the EGM, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Friday, 22 October 2021.

Whether or not you intend to attend and vote at the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the H Share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (in respect of holders of H Shares), or to the Company's registered office in the PRC at No. 308 Yin Quan Road, Xicheng Street, Huangyan District, Taizhou, Zhejiang Province, the PRC (in respect of holders of Domestic Shares) as soon as possible but in any event by not later than 24 hours before the time appointed for holding of the EGM (i.e. before 3:00 p.m. on Wednesday, 27 October 2021) or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

If you intend to attend the EGM in person or by proxy, you are required to complete the enclosed reply slip and return the same to Computershare Hong Kong Investor Services Limited (in respect of holders of H Shares) and the Company's registered office in the PRC (in respect of holders of Domestic Shares) on or before Tuesday, 12 October 2021.

11. VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, voting by any Shareholders at a general meeting shall be by way of poll, except where the chairman of the general meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The chairman of the general meeting shall require each of the resolutions proposed at the EGM to be voted by way of poll according to the Articles of Association.

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During voting by way of poll, each Shareholder who attends in person or by proxy (or if the Shareholder is a company, then its officially authorised representative) may have one vote for each Share recorded under his/her/its name as set out in the register of members of the Company. The Company will announce the poll results after the EGM in the manner as stipulated under Rule 13.39(5) of the Listing Rules.

12. RECOMMENDATION

Having considered the principal factors and reasons described above, the Directors (including the independent non-executive Directors whose view is based on the advice from Red Sun and Honestum) are of the view that the terms of the Huangyan Equity Transfer Agreement, the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder are fair and reasonable, and such connected transaction and continuing connected transactions (as the case may be) are in the ordinary course of business, on normal commercial terms which were arrived at after arm's length negotiations and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend all the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Huangyan Equity Transfer Agreement, the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder.

The Independent Board Committee, having taken into account, among other things, the advice of Red Sun and Honestum, is of the view that the terms of the Huangyan Equity Transfer Agreement, the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder are fair and reasonable, and such connected transaction and continuing connected transactions (as the case may be) are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Huangyan Equity Transfer Agreement, the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder.

The Directors also consider that all other resolutions set out in the Notice of EGM for consideration and approval by Shareholders are in the interests of the Group and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of all of the other resolutions as set out in the Notice of EGM.

LETTER FROM THE BOARD

13. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

The English text of this circular (except for the summary of the Huangyan Water Supply Valuation Report included in the circular as Appendix I) shall prevail over the Chinese text in the event of inconsistency. The Chinese text of summary of the Huangyan Water Supply Valuation Report included in the circular as Appendix I shall prevail over the English text in the event of inconsistency.

By order of the Board
Taizhou Water Group Co., Ltd.*
YANG Jun
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the letter of advice from the Independent Board Committee to the Independent Shareholders in relation to (1) the Huangyan Equity Transfer Agreement; (2) the Supplemental 2019 CCT Agreements; and (3) the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



Taizhou Water Group Co., Ltd.* **台州市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: 1542)

30 September 2021

To the Independent Shareholders

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO
THE ACQUISITION;
(2) FURTHER REVISION OF ANNUAL CAPS FOR CONTINUING
CONNECTED TRANSACTIONS; AND
(3) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated 30 September 2021 (the “**Circular**”) issued by the Company to the Shareholders of which this letter forms part. Unless the context otherwise requires, terms and expressions defined in the Circular shall have the same meanings when used in this letter.

We have been appointed by the Board as the Independent Board Committee to consider and advise you as to whether, in our opinion, (1) the Huangyan Equity Transfer Agreement; (2) the Supplemental 2019 CCT Agreements; and (3) the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder 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.

Red Sun Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Huangyan Equity Transfer Agreement and the transactions contemplated thereunder; and Honestum International Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to (1) the Supplemental 2019 CCT Agreements; and (2) the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder.

* *For identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Details of the advice from Red Sun Capital Limited and Honestum International Limited, together with the reasons for their opinion, the key assumptions made and the factors taken into consideration in forming their opinion, are set out on pages 42 to 59 and pages 60 to 74 respectively of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 8 to 39 of the Circular and the information set out in Appendix I and Appendix II to the Circular.

Having considered the terms and conditions of each of the Huangyan Equity Transfer Agreement, the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, the interests of the Independent Shareholders and the advice of Red Sun Capital Limited and Honestum International Limited, we are of the opinion that the terms of (1) the Huangyan Equity Transfer Agreement; (2) the Supplemental 2019 CCT Agreements; and (3) the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder are fair and reasonable, and such transactions are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM in the terms as set out in the notice of the EGM to approve (1) the Huangyan Equity Transfer Agreement; (2) the Supplemental 2019 CCT Agreements; and (3) the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Independent Board Committee

Ms. Hou Meiwen
Mr. Li Wai Chung
Ms. Lin Suyan
Mr. Wang Yongyue
Mr. Zheng Jianzhuang
Independent non-executive Directors

LETTER FROM RED SUN

The following is the full text of a letter of advice from Red Sun Capital Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition for the purpose of inclusion in this circular.



红日资本有限公司
RED SUN CAPITAL LIMITED

30 September 2021

*To the Independent Board Committee and
the Independent Shareholders of Taizhou Water Group Co., Ltd.*

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE TO ACQUISITION OF 45% EQUITY INTEREST IN HUANGYAN WATER SUPPLY

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 30 September 2021 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 1 September 2021 (after trading hours), the Company, the Vendor and Huangyan Water Supply entered into the Huangyan Equity Transfer Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to purchase, 45% equity interest in Huangyan Water Supply at a maximum consideration of RMB127.44 million (the “**Consideration**”).

LISTING RULES IMPLICATION

As one of the applicable percentage ratios in respect of the Acquisition exceeds 5% but is less than 25%, the Acquisition constitutes a discloseable transaction of the Company, which is subject to the reporting, announcement requirements under Chapter 14 of the Listing Rules.

LETTER FROM RED SUN

As at the Latest Practicable Date, the Vendor is an indirect wholly-owned subsidiary of Huangyan SCIOG, the holding company of Yongning Financial Consulting, which is a substantial Shareholder holding approximately 13.34% of the total issued share capital of the Company. Accordingly, each of the Vendor and Huangyan Water Supply is a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules by virtue of being an associate of Yongning Financial Consulting. The Acquisition therefore constitutes a connected transaction of the Company for the purpose of Chapter 14A of the Listing Rules, and is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of 15 Directors, namely Mr. Yang Jun and Mr. Zhang Junzhou as executive Directors, Mr. Wang Haiping, Mr. Wang Haibo, Ms. Fang Ya, Mr. Yu Yangbin, Ms. Huang Yuyan, Mr. Yang Yide, Mr. Guo Dingwen and Mr. Sun Hua as non-executive Directors, Mr. Zheng Jianzhuang, Ms. Hou Meiwen, Mr. Li Wai Chung, Ms. Lin Suyan and Mr. Wang Yongyue as independent non-executive Directors.

The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Zheng Jianzhuang, Ms. Hou Meiwen, Mr. Li Wai Chung, Ms. Lin Suyan and Mr. Wang Yongyue, has been established to advise the Independent Shareholders as to (i) whether the terms of the Huangyan Equity Transfer Agreement and the Acquisition are fair and reasonable; (ii) whether the Acquisition is conducted in the ordinary and usual course of business of the Group, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote on the Huangyan Equity Transfer Agreement.

We have been appointed to advise the Independent Board Committee and the Independent Shareholders in these respects and to give our opinion in relation to the terms of the Huangyan Equity Transfer Agreement and the Acquisition for the Independent Board Committee's consideration when making their recommendation to the Independent Shareholders.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent of and not connected with the Group in accordance with Rule 13.84 of the Listing Rules, and accordingly, we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders. Save for our appointment as the Independent Financial Adviser, we did not act as an independent financial adviser to the Group under the Listing Rules in the past two years.

Apart from the normal advisory fee payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

LETTER FROM RED SUN

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied solely on the statements, information, opinions and representations contained in or referred to the Circular and the information and representations provided by the Company, the Directors and the management of the Company (the “**Management**”). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Company, the Directors and the Management (for which they are solely and wholly responsible), were true and accurate at the time they were made and continue to be so as at the Latest Practicable Date.

The Directors jointly and severally accept full responsibility for the accuracy of the statements, information and representations contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been reasonably arrived at after due and careful consideration and there are no other material facts not contained in the Circular the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information in order to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion.

We have not, however, carried out any independent verification of the information provided by the Directors, the Management, the Independent Valuer and the Seller, nor have we conducted any independent investigation into the business, affairs of the Company or Huangyan Water Supply or any of their respective subsidiaries and associates. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Huangyan Equity Transfer Agreement and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

LETTER FROM RED SUN

INFORMATION OF THE ACQUISITION

Huangyan Equity Transfer Agreement

On 1 September 2021 (after trading hours), the Company, the Vendor and Huangyan Water Supply entered into the Huangyan Equity Transfer Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to purchase, 45% equity interest in Huangyan Water Supply at a maximum consideration of RMB127.44 million.

Set out below are the major terms of the Huangyan Equity Transfer Agreement:

Date	1 September 2021
Parties	<ol style="list-style-type: none">1. The Vendor (as vendor);2. the Company (as purchaser); and3. Huangyan Water Supply (as target company).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, as at the Latest Practicable Date, each of the Vendor and Huangyan Water Supply is an indirect wholly-owned subsidiary of Huangyan SCIOG, the holding company of Yongning Financial Consulting, which is a substantial Shareholder holding approximately 13.34% of the total issued share capital of the Company. Accordingly, each of the Vendor and Huangyan Water Supply is an associate of Yongning Financial Consulting and a connected person of the Company. The Vendor and Huangyan Water Supply are ultimately wholly-owned by the Finance Bureau of Huangyan District of Taizhou* (台州市黃岩區財政局).

The Consideration

The consideration for the Acquisition shall be of a base amount of RMB116.27 million, subject to adjustment, and shall be paid by the Company to the Vendor in cash. Please refer to the Letter from the Board for details of the payment arrangement and conditions precedent.

The Company and the Vendor agreed that the maximum consideration of the Acquisition payable by the Company to the Vendor subsequent to the adjustment to the Consideration as set out in the Letter from the Board shall not exceed RMB127.4 million. Accordingly, our analysis in this letter is based on the maximum consideration within the adjustment price range being RMB127.4 million.

Basis of consideration

Based on the Huangyan Water Supply Valuation Report, the equity attributable to owners of Huangyan Water Supply as at the Valuation Reference Date, as assessed by the Independent Valuer using the asset based approach, was approximately RMB283.19 million, among which approximately RMB24.82 million was attributable to Taizhou Huangyan Water Construction Co., Ltd.* (台州市黃岩水務建設有限公司) ("**Huangyan Water Construction**"), a wholly-owned subsidiary of Huangyan Water Supply.

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The base consideration was determined after arm's length negotiations between the parties to the Huangyan Equity Transfer Agreement with reference to, among other things, the aforementioned appraised value of Huangyan Water Supply less the appraised value of Huangyan Water Construction. Upon completion of the construction in progress of Huangyan Water Construction, the parties will separately agree on the Consideration and settlement terms of Huangyan Water Construction and its assets. For the detailed basis of the Consideration and the reasons for and benefits of the Acquisition, please refer to the Letter from the Board.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the Huangyan Equity Transfer Agreement and the Acquisition, we have taken into account the following principal factors and reasons:

1. Information of the Group and Huangyan Water Supply

1.1. Information of the Group

The Company is a leading water supply service provider in Taizhou principally engaged in the supply of raw water and municipal water. The Company also supplies tap water directly to end-users and engages in the installation of the water pipelines for distributing tap water to its end-users in Taizhou.

1.2. Financial information of the Group

As set out in the annual report of the Company for the years ended 31 December 2019 (the "2019 Annual Report") and 31 December 2020 (the "2020 Annual Report"), the Group's main source of revenue is sale of water, which is the largest operating segment accounting for approximately 98.6%, 97.7% and 97.4% of the Group's total revenue for the years ended 31 December 2018 ("FY2018"), 2019 ("FY2019") and 2020 ("FY2020"), respectively.

Set out below is the summary of financial result of the Group as extracted from the 2019 Annual Report and the 2020 Annual Report:

Summary of consolidated statements of profit or loss and comprehensive income

	FY2018	FY2019	FY2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Revenue	504,263	472,148	483,796
Profit after tax	123,498	104,521	116,229
Profit attributable to the owners of the parent	110,450	92,540	103,069

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For FY2020 compared to FY2019

For FY2020, the revenue of the Group increased by approximately 2.5%, from approximately RMB472.1 million for FY2019 to approximately RMB483.8 million for FY2020, mainly due to the lower rainfall volume led to the increase in water demand from some municipal water supply companies with small reservoirs. The profit after tax increased to approximately RMB116.2 million for FY2020, representing an increase of approximately 11.2% as compared to FY2019. The profit attributable to the owners of the parent increased to approximately RMB103.1 million for FY2020, representing an increase of approximately 11.4% as compared to FY2019.

For FY2019 compared to FY2018

For FY2019, the revenue of the Group decreased by approximately 6.4%, from approximately RMB504.3 million for FY2018 to approximately RMB472.1 million for FY2019, mainly due to the higher rainfall volume led to the decrease in sales volume of municipal water. The profit after tax decreased to approximately RMB104.5 million for FY2019, representing a decrease of approximately 15.4% as compared to FY2018. The profit attributable to the owners of the parent decreased to approximately RMB92.5 million for FY2019, representing a decrease of approximately 16.2% as compared to FY2018.

Summary of consolidated statement of financial position

Set out below is the summary of consolidated financial position of the Group as extracted from the 2019 Annual Report and the 2020 Annual Report:

	As at 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Total assets	1,953,177	2,929,328	3,503,056
– Property, plant and equipment	1,037,070	1,772,391	2,545,168
– Right-of-use assets	264,045	384,484	412,222
– Cash and cash equivalents	314,398	264,357	230,369
Total liabilities	1,307,800	2,027,109	2,484,553
– Interest-bearing bank and other borrowings	1,004,786	1,534,000	1,964,000
– Other payables and accruals	160,680	299,791	343,231
Total equity attributable to owners of the parent	519,689	764,550	835,634

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Financial position of the Group as at 31 December 2020 compared to 31 December 2019

Total assets of the Group increased by approximately 19.6%, from approximately RMB2,929.3 million as at 31 December 2019 to approximately RMB3,503.1 million as at 31 December 2020. Such increase was primarily attributable to the increase in property, plant and equipment from approximately RMB1,772.4 million as at 31 December 2019 to approximately RMB2,545.2 million as at 31 December 2020, representing an increase of approximately 43.6%. As at 31 December 2020, assets of the Group mainly comprised of (i) property, plant and equipment of approximately RMB2,545.2 million; (ii) right-of-use assets of approximately RMB412.2 million; and (iii) cash and cash equivalents of approximately RMB230.4 million, which accounted for approximately 72.7%, 11.8% and 6.6% of the total assets of the Group, respectively.

Total liabilities of the Group increased by approximately 22.6%, from approximately RMB2,027.1 million as at 31 December 2019 to approximately RMB2,484.6 million as at 31 December 2020. Such increase was mainly attributable to the increase in interest-bearing bank and other borrowings of approximately 28.0% from approximately RMB1,534.0 million as at 31 December 2019 to approximately RMB1,964.0 million as at 31 December 2020. As at 31 December 2020, liabilities of the Group mainly comprised of (i) interest-bearing bank and other borrowings of approximately RMB1,964.0 million; and (ii) other payables and accruals of approximately RMB343.2 million, which accounted for approximately 79.0% and 13.8% of the total liabilities, respectively.

Financial position of the Group as at 31 December 2019 compared to 31 December 2018

Total assets of the Group increased by approximately 50.0%, from approximately RMB1,953.2 million as at 31 December 2018 to approximately RMB2,929.3 million as at 31 December 2019. Such increase was primarily attributable to the increase in property, plant and equipment from approximately RMB1,037.1 million as at 31 December 2018 to approximately RMB1,772.4 million as at 31 December 2019, representing an increase of approximately 70.9%. As at 31 December 2019, assets of the Group mainly comprised of (i) property, plant and equipment of approximately RMB1,772.4 million; (ii) right-of-use assets of approximately RMB384.5 million; and (iii) cash and cash equivalents of approximately RMB264.4 million, which accounted for approximately 60.5%, 13.1% and 9.0% of the total assets of the Group, respectively.

Total liabilities of the Group increased by approximately 55.0%, from approximately RMB1,307.8 million as at 31 December 2018 to approximately RMB2,027.1 million as at 31 December 2019. Such increase was mainly attributable to the increase in interest-bearing bank and other borrowings of approximately 52.7% from approximately RMB1,004.8 million as at 31 December 2018 to approximately RMB1,534.0 million as at 31 December 2019. As at 31 December 2019, liabilities of the Group mainly comprised of (i)

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interest-bearing bank and other borrowings of approximately RMB1,534.0 million; and (ii) other payables and accruals of approximately RMB299.8 million, which accounted for approximately 75.7% and 14.8% of the total liabilities, respectively.

1.3. Information of Huangyan Water Supply and the Vendor

As set out in the Letter from the Board, Huangyan Water Supply principally engages in the business of centralised water supply services in Huangyan District of Taizhou. As at the Latest Practicable Date, Huangyan Water Supply is directly wholly-owned by the Vendor, which first acquired the entire equity interest in Huangyan Water Supply in August 2018 at nil consideration pursuant to the “Notice on Gratuitous Transfer of Assets (Equity) of Taizhou Huangyan Water Conservancy Development Group Co., Ltd. (Huang Guozi [2018] No. 35)”《關於台州市黃岩水利發展集團有限公司重組資產(股權)無償劃轉的通知》(黃國資[2018]35號) issued by the State-owned Assets Administration of Huangyan District of Taizhou (台州市黃岩區國有資產管理局).

Huangyan Water Supply holds the following wholly-owned subsidiaries:

Name of subsidiary	Principal business of the subsidiary
Huangyan Water Construction	Construction and management of water engineering project and centralised municipal water supply services
Taizhou Huangyan Ningchuan Water Supply Co., Ltd.* (台州市黃岩寧川供水有限公司)	Production and supply of tap water and pipeline and equipment installation

Set out below is a summary of key financial information of Huangyan Water Supply for the years ended 31 December 2019, 2020 and the five months ended 31 May 2021:

	For the year ended		For the five months	
	31 December		ended 31 May	
	2019	2020	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue	182,116	193,132	60,268	74,251
Gross profit	36,873	37,201	2,884	10,158
Profit/(loss) before taxation	17,949	15,429	(9,079)	(6,548)
Profit/(loss) after taxation	12,630	10,647	(7,453)	(5,752)

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	As at 31 December		As at
	2019	2020	31 May
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Total current assets	310,054	131,430	171,751
Total non-current assets	477,364	616,069	675,112
Total assets	787,418	747,499	846,863
Total current liabilities	479,176	303,050	318,509
Total non-current liabilities	297,895	420,814	512,097
– Interest-bearing bank and other borrowings	40,000	146,000	237,000
– Deferred government grants	206,783	223,925	221,640
– Lease liabilities	18	84	85
– Net employee defined benefit liabilities	51,094	50,805	53,372
Total liabilities	777,071	723,864	830,606
Net assets value	10,347	23,635	16,257

As set out in the Letter from the Board, the results of operation of Huangyan Water Supply are subject to fluctuations due to seasonality. The sales of tap water fluctuate according to the water consumption of the area, which generally drops in winter seasons and rises in summer seasons. Besides, the cost of repair and maintenance and water loss due to higher pipeline leakage rate in winter seasons is generally higher than that of the summer seasons as water pipelines are more vulnerable to suffer from frozen cracks in winter, which would also lead to higher pipeline leakage rate. As such, the net loss after tax of Huangyan Water Supply for the five months ended 31 May 2021 of approximately RMB5.8 million was primarily due to, as aforementioned, (i) the decrease in sales of tap water in slack season; (ii) higher repair and maintenance costs during the period; (iii) higher water loss attributable to higher pipeline leakage rate; and (iv) the relatively thinner gross profit margin for the period due to the decrease in sales for the period while the fixed costs, such as depreciation expenses and staff costs, of Huangyan Water Supply remained stable.

As part of our work done, we had reviewed a water supply schedule prepared by the Management which stated the amount of water supply by Huangyan Water Supply to its customers on a monthly basis for the two years ended 31 December 2019 and 2020 and for the five months ended 31 May 2021. It is noted that (i) the water supply by Huangyan Water Supply for the five months ended 31 May 2019 only accounted for 36.9% of water supply for the year ended 31 December 2019; and (ii) the water supply by Huangyan Water Supply for the five months ended 31 May 2020 only accounted for 37.5% of water supply for the year ended 31 December 2020. Nevertheless, the revenue and gross profit margin have increased from approximately RMB60.3 million to approximately RMB74.3 million and

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approximately 4.8% to approximately 13.7%, respectively comparing the five months ended 31 May 2020 and the five months ended 31 May 2021. Accordingly, we concur with the Directors that the overall operation efficiency of the Huangyan Water Supply is improving.

Based on the unaudited financial statements of Huangyan Water Supply, Huangyan Water Supply had been continuously making profit during the three years ended 31 December 2020, despite a net loss after tax recorded for the five months ended 31 May 2020. Taking into account the historical financial performance of Huangyan Water Supply and the seasonality of its operation as illustrated above, the Board is of the view that Huangyan Water Supply will continue to make profit in the long run, including the year ending 31 December 2021, and will be able to contribute stable additional income to the Group in the future. Given the benefits of the Acquisition to be accrued to the Group as detailed in the paragraph headed “Reasons for and benefits of the Acquisition” below, including, among others, the expected expansion of the Group’s geographical coverage of its water supply network to Huangyan District and larger economies of scale to be enjoyed by the Group, we concur with the Directors that the Acquisition is in the interest of the Company and the Independent Shareholders as a whole.

The unaudited net assets value and equity attributable to owners of Huangyan Water Supply as at 31 May 2021 amounted to approximately RMB16.3 million and RMB16.3 million, respectively. The entire equity interest of Huangyan Water Supply as at 30 April 2021 as appraised by the Independent Valuer amounted to approximately RMB283.2 million, and the 45% equity interest in Huangyan Water Supply to be acquired by the Company amounted to RMB127.44 million accordingly.

The Vendor is principally engaged in investment and asset management and construction, operation and management of water conservancy and hydropower projects. As at the Latest Practicable Date, the Vendor is ultimately wholly-owned by the Finance Bureau of Huangyan District of Taizhou.

2. Overview of the economy in the PRC and Taizhou

With reference to the Fourteenth Five Year Plan* (十四五規劃), the PRC government will focus on enhancing the quality and efficacy of the overall economy with a view to attain sustainable and healthy development through, among others, (i) the improvement of supply chain modernisation* (提升產業鏈供應鏈現代化水準); (ii) the development of strategic new industries* (發展戰略性新興產業); (iii) the acceleration of modern service industries development* (加快發展現代服務業); (iv) the coordination of infrastructure construction advancement* (統籌推進基礎設施建設); and (v) the acceleration of the development of digitalisation* (加快數位化發展). The Acquisition enables the Group to exploit the underlying business opportunities in the water supply market in the PRC as driven by the strategic policies in relation to the development and construction of infrastructure set out above, which is in line with the overall macro development as set out in the Fourteenth Five Year Plan.

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As set out in the 2020 Annual Report, in 2020, Taizhou City issued and implemented the “Regulation on Protection of Taizhou Changtan Reservoir Drinking Water Source (《台州市長潭水庫飲用水水源保護條例》)”, which clarifies the responsibilities of all parties, continuously strengthens the construction of ecological and environmental infrastructure of drinking water sources and enhances the pollution control of drinking water sources.

Furthermore, as discussed in the Letter from the Board, with a view to improving the profitability of the Group, the Company has been actively looking for attractive merger and acquisition opportunities. Further, as stressed by the Municipal Committee Office of Taizhou (中共台州市委辦公室) and the Taizhou Municipal People’s Government Office (台州市人民政府辦公室), the integration of water supply in Taizhou is essential for improving people’s livelihood, promoting integrated development of urban areas, efficient use of water and the transformation and upgrade of water supply business in Taizhou. Through expanding its water supply network and water supply facilities in Huangyan District of Taizhou, the Acquisition is believed to be instrumental to the Group’s effort in integrating the urban and rural water supply system across all districts in Taizhou and benefiting more users. As such, the Acquisition will allow the Group to further strengthen the Group’s position as the leading water supply service provider in Taizhou.

Based on the abovementioned, we concur with the Directors that the water supply industry in Taizhou will be further driven and the Acquisition (i) should benefit the Group from further development of the water supply industry in Taizhou; and (ii) is conducted in the ordinary and usual course of business of the Group, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

3. Assessment on the Consideration

As set out in the Letter from the Board, the Consideration was determined after arm’s length negotiations between the parties to the Huangyan Equity Transfer Agreement, taking into account, among others, the appraised value of the total shareholders’ equity of Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. is appraised, using the asset-based approach to be approximately RMB283.2 million and using the income approach to be approximately RMB31.0 million, as assessed by Canwin Appraisal Co., Ltd.* (坤元資產評估有限公司), being an independent professional valuer appointed to conduct a valuation on Huangyan Water Supply in its valuation of Huangyan Water Supply (the “**Valuation Report**”). For further details of the Valuation Report, please refer to “Appendix I — Summary of the Huangyan Water Supply Valuation Report” to the Circular.

When assessing the fairness and reasonableness of the valuation of Huangyan Water Supply, we have reviewed the Valuation Report and discussed with the Independent Valuer in relation to (i) the methodology and assumptions used in performing the valuation on Huangyan Water Supply as well as whether such methodology and assumptions are appropriate and acceptable; (ii) their scope of work for conducting the valuation on Huangyan Water Supply; and (iii) their relevant professional qualifications as a valuer.

3.1. Valuation methodology

We noted from the Valuation Report that approach adopted by the Independent Valuer was a mixture of (i) income approach which is a valuation method that determines the value of valuation target by capitalising or discounting the expected incomes of the appraised entity; and (ii) asset-based approach which is based on the balance sheet of the appraised entity as at the Valuation Reference Date, reasonably assesses the values of assets and liabilities booked in the balance sheet and identifiable off-balance sheet assets and liabilities, and determines the value of the valuation target. The approach is based on the assumption of replacing production elements.

According to the Independent Valuer, given the characteristics of the enterprise under the valuation, it is difficult for valuers to identify comparable companies that are similar to the enterprise to be appraised in the open market. In addition, as the marketisation and informatisation in China currently stay at relatively lower levels, it is difficult to collect sufficient equity transactions of similar enterprises, and it is also impossible to acquire information of factors and conditions that affect prices of the aforesaid transactions through open and regular channels and to adjust the transaction prices through quantifying each category of factors to correction coefficients. Therefore, the adoption of market approach has valuation technical defects, and it is inappropriate for the valuation to adopt the market approach.

In light of the above, notwithstanding the Independent Valuer adopted the mixture of asset-based approach and income approach which the Independent Valuer considered to be normal and the selection of parameters reasonable, given that the revenue estimation is based on expectations and judgments on future macro policies and the water supply industry, and that the quality and quantity of data used in the income approach is inferior to that of the asset-based approach due to more uncertainties in the prevailing economic and market environment, the Independent Valuers are of the view and we concur that the valuation results derived using the asset-based approach are more suitable for the purpose of the valuation.

3.2. Independent assessment

In assessing the fairness and reasonableness of the Consideration for the Acquisition, we have conducted independent assessment on the Consideration for the Acquisition.

Given Huangyan Water Supply is principally engaged in the business of centralised water supply services in Huangyan District of Taizhou, the following criteria were set for selection comparables for our assessment, (i) the shares of the comparable company are listed on the Stock Exchange of Hong Kong, Shanghai Stock Exchange and Shenzhen Stock Exchange; (ii) principally engaged in the water supply business in the PRC; and (iii) over 40% of revenue derived from water

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supply business (the “Criteria”). Based on the Criteria and on a best-effort basis, we have identified and reviewed four comparable companies (the “Comparable Companies”).

Set out below is our analysis on the Comparable Companies:

Stock code	Name of company	P/E ratio <i>(Note 1)</i> <i>(times)</i> <i>(approximate)</i>	P/B ratio <i>(Note 2)</i> <i>(times)</i> <i>(approximate)</i>
600283	Qianjiang Water Resources Development Co., Ltd	26.6	1.9
601199	Jiangsu Jiangnan Water Co., Ltd	14.5	1.1
601368	Guangxi Nanning Waterworks Co., Ltd	17.7	1.0
603759	Haitian Water Group Co., Ltd.	34.7	4.8
	Minimum	14.5	1.0
	Maximum	34.7	4.8
	Average	23.4	2.2
	Huangyan Water Supply	26.6 <i>(Note 3)</i>	1.0 <i>(Note 4)</i>

Source: The official websites of the Shanghai Stock Exchange (<http://www.sse.com.cn/>)

Notes:

1. Computed by dividing the respective market capitalisations of the Comparable Companies as at the date of the Huangyan Equity Transfer Agreement by the respective net profits attributable to shareholders as at the then respective latest financial year ended of the Comparable Companies as extracted from the then latest published annual reports of the Comparable Companies.
2. Computed by dividing the respective market capitalisations of the Comparable Companies as at the date of the Huangyan Equity Transfer Agreement by the respective net assets value as at the then respective latest financial year ended of the Comparable Companies as extracted from the then latest published annual reports of the Comparable Companies.
3. This represents the implied P/E ratio of Huangyan Water Supply, which is computed by dividing the implied value of the Consideration with respect to 100% equity interest in Huangyan Water Supply by the reported net profit attributable to shareholders for the year ended 31 December 2020.
4. This represents the implied P/B ratio of Huangyan Water Supply, which is computed by dividing the implied value of the Consideration with respect to 100% equity interest in Huangyan Water Supply by the appraised fair value of Huangyan Water Supply as at 30 April 2021 of approximately RMB283.2 million as set out in the Valuation Report. The adoption of the implied P/B ratio has taken into account of (i) the Deferred Grants (as defined hereunder) of approximately RMB126.8 million; (ii) the Employee Benefit Liabilities (as defined hereunder) of approximately RMB53.4 million as at 31 May 2021 as stated in the unaudited financial statements of Huangyan Water Supply; and (iii) the

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difference of approximately RMB86.7 million as at 31 May 2021 due to the revaluation of assets level of Huangyan Water Supply. Please refer to the paragraph headed “3.3 Valuation basis and assumption — Revaluation of assets” for further details.

As illustrated in the table above, the P/E ratio of the Comparable Companies range from a minimum of approximately 14.5 times to a maximum of approximately 34.7 times with an average of approximately 23.4 times. We noted that the implied P/E ratio of Huangyan Water Supply is approximately 26.6 times, which falls within the range of P/E ratios of the Comparable Companies.

The P/B ratio of the Comparable Companies range from a minimum of approximately 1.0 times to a maximum of approximately 4.8 times with an average of approximately 2.2 times. We noted that the implied P/B ratio of Huangyan Water Supply is approximately 1.0 times, which falls within the range of P/B ratios of the Comparable Companies.

Accordingly, we are of the view that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

3.3. Valuation basis and assumptions

In conducting the Valuation, the Independent Valuer has made several assumptions, which included, among other things and unless otherwise stated, that (i) the valuation being based on the changes in the subject of title interests of the assets to be appraised; (ii) all transactions appraised were open market transactions; (iii) the premise that the appraised entity continues to operate in accordance with the predetermined business objectives, that is, all assets of the appraised entity are still used in accordance with the current use and method, while change of the current use or remaining use unchanged but changing the planning and use method is not considered; (iv) the relevant legal documents, various accounting documents, account books and other information provided by the appraised entity are true, complete, legal and reliable; (v) the macro-environment is relatively stable, that is, the country’s existing macroeconomic, politics, policies and industrial policies of the industry in which the appraised entity is located have no major changes, and the socio-economic development is sustained, healthy and stable; the national monetary and financial policies remain in the current state and will not cause major fluctuations in the social economy; national taxation maintains the current regulations, tax types and tax rates have no major changes; the country’s current interest rates, exchange rates, etc. have no major changes; and (vi) the business environment of the appraised entity is relatively stable, that is, there are no major changes in the social, political, legal, and economic business environment of the appraised entity’s main business premises and the areas in which it operates; there are no policy, legal or man-made obstacles for the appraised entity to carry out business activities within its established business scope.

We also understand that the Independent Valuer relied on the information given by the Group on such matters, in particular, but not limited to, the sales records, tenure, planning approvals, statutory notices, easements, particulars of

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occupancy, site and floor areas and all other relevant matters in the identification of Huangyan Water Supply interests, on the basis that no material factors have been omitted from the information supplied as advised by the Group.

We noted that the unaudited net assets value of Huangyan Water Supply as at 31 May 2021, being approximately RMB16.3 million, is substantially lower than its valuation as at 30 April 2021 of approximately RMB283.2 million. As such, we have discussed the reasons for the aforesaid difference with both the Independent Valuer and the reporting accountants of the Company and given to understand that such difference is mainly attributable to two balance sheet items being (i) deferred government grants; (ii) net employee defined benefit liabilities of Huangyan Water Supply; and (iii) the net effect of on the assets level of Huangyan Water Supply.

Deferred government grants

The reporting accountants of the Company have recognised the Deferred Grants (as defined hereunder) as non-current liabilities of Huangyan Water Supply, as upon completion of the related projects and successful final assessment of the relevant government authorities, the grants related to assets would be released to profit or loss over the expected useful lives of the relevant assets. We have reviewed the asset valuation instruction* (資產評估說明) (the “**Valuation Instruction**”) from the Independent Valuer, being a detailed supplemental document to all of the basis, assumptions and calculations used in the Valuation Report, and understand from the Independent Valuer that part of the deferred government grants of approximately RMB126.8 million as at 31 May 2021 as stated in the unaudited financial statements of Huangyan Water Supply (approximately RMB132.9 million as at 30 April 2021 as stated in the financial statements of Huangyan Water Supply) (the “**Deferred Grants**”) has been regarded as nil as set out in the Valuation Instruction, the Independent Valuer confirmed that the Deferred Grants were originally granted by government authorities for the purpose of certain water supply related construction projects of Huangyan Water Supply, which have reached completion as at the Latest Practicable Date. We are given to understand from the Company, the Independent Valuer, Zhejiang Huacheng Certified Public Accountants Co., Ltd* (浙江華成會計師事務所) (the “**PRC Auditors**”), an audit firm incorporated in Taizhou, the PRC and the reporting accountants of the Company that the Deferred Grants are no longer repayable to the relevant government authorities and concur with the Independent Valuer that the Deferred Grants should be appraised as nil fair value in the Valuation Report.

Employee defined benefit

The reporting accountants of the Company have recognised net employee defined benefit plan liabilities of approximately RMB53.4 million as at 31 May 2021 as stated in the unaudited financial statements of Huangyan Water Supply (the “**Employee Benefit Liabilities**”) as non-current liabilities of Huangyan Water Supply under Hong Kong Accounting Standards

(“HKAS”). As advised by the Independent Valuer and set out in the Valuation Instruction, the Valuation was based on the financial statements of Huangyan Water Supply as at 30 April 2021, prepared by the PRC Auditors, and due to the differences in practice between HKAS and Chinese Accounting Standards (“CAS”), the Employee Benefit Liabilities have not been recognised as an accounting entry under CAS given the fact that the Employee Benefit Liabilities (i) do not constitute any obligation under any PRC laws, rules and regulations; (ii) are contingent liabilities being recorded under the management policy of the Group; and (iii) are only a provisional item which the Management has no intention to pay out as at the Latest Practicable Date. Accordingly, we concur with the Independent Valuer that the aforementioned items should not be taken into account of for the valuation of Huangyan Water Supply as at 30 April 2021.

Revaluation of assets

We are also given to understand from the reporting accountants of the Company and the Independent Valuer that the remaining difference of approximately RMB86.7 million was due to the net effect of the revaluation on the assets level of Huangyan Water Supply by the Independent Valuer on the assets of Huangyan Water Supply as at 30 April 2021. According to the reporting accountants of the Company and the Independent Valuer, these assets measured at the historical costs under HKAS by the reporting accountants of the Company, while such assets were appraised by the Independent Valuer in the Valuation report taking into account of their market value as at the benchmark date of the Valuation (i.e. 30 April 2021).

Based on the aforesaid analysis, we are of the view that the basis and assumptions adopted for the valuation of Huangyan Water Supply are fair and reasonable.

3.4. Valuer’s scope of work and competence

In assessing the fairness and reasonableness of the Consideration for the Acquisition, we have obtained and reviewed the Huangyan Water Supply Valuation Report prepared by the Independent Valuer. We have also reviewed and enquired with the Independent Valuer/Management (i) qualification and experience of the Independent Valuer in relation to the preparation of the Huangyan Water Supply Valuation Report; (ii) work scope of the Independent Valuer for preparing the Huangyan Water Supply Valuation Report; and (iii) valuation procedures conducted by the Independent Valuer for conducting the valuation. Furthermore, we have reviewed the terms of engagement of the Independent Valuer and noted that the scope of work is appropriate to the valuation. The Independent Valuer has also confirmed its independence.

3.5. Summary of Huangyan Water Supply valuation

In consideration of the aforementioned, we are of the view that (i) the valuation methodology adopted by the Independent Valuer is a reasonable

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approach for valuation of the Huangyan Water Supply; (ii) the valuation basis and assumptions adopted by the Independent Valuer are fair and reasonable; (iii) the scope of work of the Independent Valuer is sufficient and appropriate for performing the valuation on Huangyan Water Supply; and (iv) the Independent Valuer has sufficient experience and competency to perform the valuation of Huangyan Water Supply. As such, we are of the view that the valuation of Huangyan Water Supply by the Independent Valuer is fair and reasonable.

Taking into account the factors discussed above, we are of the view that the Consideration, which reflects a very slight discount of less than 0.1% to the valuation of Huangyan Water Supply under the Valuation Report, is fair and reasonable and in the interests of the Company and Shareholders as a whole.

4. Reasons for and benefits of entering into the Huangyan Equity Transfer Agreement

As discussed in this letter, the Acquisition is in line with the Government policy under the Fourteenth Five Year Plan* (十四五規劃) and the regional policies in the water supply industry in Taizhou and will enable the Group to further strengthen the Group's position as the leading water supply service provider in Taizhou.

Taking into account the abovementioned, we concur with the Directors that the water supply industry in Taizhou will be further driven and the Acquisition (i) should benefit the Group from further development of the water supply industry in Taizhou and (ii) is conducted in the ordinary and usual course of business of the Group, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

5. Financial effects of the Acquisition

As set out in the Letter from the Board, upon completion, as the Group will hold not more than 50% interest in Huangyan Water Supply and the Group will have no control over the board of Huangyan Water Supply, Huangyan Water Supply will not become a subsidiary of the Company and its financial results will not be consolidated into the consolidated financial statements of the Company.

It is expected that upon completion of the Acquisition, (i) the total assets and total liabilities will remain unchanged as the investment in an associate in the amount of RMB127.44 million is offset by the cash and cash equivalents in the amount of RMB127.44 million payable as consideration of the Acquisition; and (ii) an increase in net current liabilities of RMB127.44 million. The Company considers that the revenue or the profits of the Group will remain unchanged.

The earnings of the Group upon completion of the Acquisition will include share of the profit and loss of Huangyan Water Supply, which will depend on its actual financial performance. In view of the immaterial transaction costs to be incurred for the Acquisition and save for the aforesaid effects from the Acquisition, the Company considers that there will not be any material effect on the earnings of the Group immediately upon the Acquisition.

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In view of the financial performance of Huangyan Water Supply in the previous years, it is anticipated that the Acquisition will improve the Group's financial and trading prospects in the future.

RECOMMENDATION

Having considered the factors set out in this letter above, in particular,

- (i) the Acquisition is in line with the Government policy under the Fourteenth Five Year Plan* (十四五規劃) and the regional policies in the water supply industry in Taizhou and the Group's strategy to grow into an enterprise with a focus on clean energy business;
- (ii) the reasons and the benefits of the Acquisition as set out in "4. Reasons for and benefits of entering into the Huangyan Equity Transfer Agreement" above; and
- (iii) the Consideration is generally in line with the fair value of the 45% equity interest in Huangyan Water Supply based on the Valuation Report,

we consider that the Acquisition is in the ordinary and usual course of business of the Group, the Huangyan Equity Transfer Agreement and the Acquisition are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution to approve the Acquisition and the transactions contemplated thereunder the Huangyan Equity Transfer Agreement.

Yours faithfully,
For and on behalf of
Red Sun Capital Limited
Joseph Lam
Director

Mr. Joseph Lam is a licensed person registered with the Securities and Future Commission of Hong Kong, a licensed representative of Red Sun Capital Limited to carry out type 1 regulated activity (dealing in securities) and a responsible officer of Red Sun Capital Limited to carry out type 6 regulated activity (advising on corporate finance). Mr. Lam has over five years of experience in the corporate finance industry in Hong Kong.

* for identification only

LETTER FROM HONESTUM

The following is the full text of a letter of advice from Honestum International Limited to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.



30 September 2021

*To the Independent Board Committee and the Independent Shareholders of
Taizhou Water Group Co., Ltd.*

Dear Sirs,

FURTHER REVISION OF ANNUAL CAPS AND RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Second Supplemental 2019 Huangyan Water Supply Framework Agreement, the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement and the 2021 Huangyan Water Supply Framework Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in this circular (the “**Circular**”) dated 30 September 2021 issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

Reference is made to the 2019 Huangyan Water Supply Framework Agreement, the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement and the Supplemental 2019 Huangyan Water Supply Framework Agreement (the “**Existing CCT Agreements**”), details of which are set out in the section headed “Connected Transactions” in the Prospectus, in the announcement of the Company dated 13 August 2020 and in the announcement of the Company dated 1 September 2021 in relation to the Further Revised Annual Caps (the “**Announcement**”). Due to the reasons set out in the section headed “2.3 The Further Revised Annual Caps and the Proposed Annual Caps” of this letter below, the Group considers necessary to revise the Original Annual Caps for the year ending 31 December 2021 to accommodate the increase in the demand for raw water supply services. Therefore, on 1 September 2021, the Group entered into the Second Supplemental 2019 Huangyan Water Supply Framework Agreement with Huangyan Water Supply to revise the Original Huangyan Annual Cap from approximately RMB41.8 million to RMB50.6 million. On the same date, the Group entered into the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement with Taizhou Luqiao Water Supply to revise the Original Taizhou Luqiao Raw Water Annual Cap from approximately RMB32.4 million to

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RMB36.0 million. In addition, since the annual caps of the continuing connected transactions of the Company as contemplated under the 2019 Huangyan Water Supply Framework Agreement (as supplemented by the Supplemental 2019 Huangyan Water Supply Framework Agreement and the Second Supplemental Huangyan Water Supply Framework Agreement) are due to expire on 31 December 2021, the Company and Huangyan Water Supply entered into a 2021 Huangyan Water Supply Framework Agreement for a term of three financial years commencing from 1 January 2022 and ending on 31 December 2024 with the proposed annual caps of approximately RMB55.3 million, RMB56.8 million and RMB58.5 million (“**Proposed Annual Caps**”), respectively.

In respect of the continuing connected transactions with Taizhou Luqiao Water Supply, Taizhou City Water has also entered into the 2019 Taizhou Luqiao Municipal Water Supply Framework Agreement and the Supplemental 2019 Taizhou Luqiao Municipal Water Supply Framework Agreement with Taizhou Luqiao Water Supply on 27 October 2019 and on 13 August 2020, pursuant to which the Company agreed to provide Taizhou Luqiao Water Supply with municipal water supply services for the three years ending 31 December 2021. For further details of the 2019 Taizhou Luqiao Municipal Water Supply Framework Agreement and the Supplemental 2019 Taizhou Luqiao Municipal Water Supply Framework Agreement, please refer to the section headed “Connected Transactions” in the Prospectus and the announcement of the Company dated 13 August 2020, respectively. Accordingly, pursuant to Rules 14A.82 and 14A.83 of the Listing Rules, the transactions under the 2019 Taizhou Luqiao Municipal Water Supply Framework Agreement (as supplemented by the Supplemental 2019 Taizhou Luqiao Municipal Water Supply Framework Agreement) and the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement have been aggregated.

As at the Latest Practicable Date, Huangyan Water Supply is indirectly wholly-owned by Huangyan SCIOG and hence a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules by virtue of being an associate of Yongning Financial Consulting, which is a substantial Shareholder holding approximately 13.34% of the total issued share capital of the Company. Upon completion of the Acquisition, Huangyan Water Supply will be indirectly held as to 55% by Huangyan SCIOG, and will therefore continue to be a connected person of the Company. Taizhou Luqiao Water Supply is an indirect wholly-owned subsidiary of Taizhou Luqiao Public Assets, a substantial Shareholder at the time when the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement was entered into, hence the Revised Taizhou Luqiao Raw Water Annual Cap under the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement is subject to the requirements under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the respective Further Revised Annual Caps and Proposed Annual Caps for the transactions contemplated under the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, on an annual basis, are more than 5%, such continuing connected transactions and Further Revised Annual Caps and Proposed Annual Caps are subject to requirements including reporting, announcement, annual review and Independent Shareholders’ approval under Chapter 14A of the Listing Rules.

Among the Directors, as Ms. Fang Ya, a non-executive Director, is a director nominated by Yongning Financial Consulting, which is a subsidiary of Huangyan SCIOG,

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the holding company of Huangyan Water Supply, she is deemed to have a material interest in the Second Supplemental 2019 Huangyan Water Supply Framework Agreement and the 2021 Huangyan Water Supply Framework Agreement, and has abstained from voting on the board resolutions in respect of the Second Supplemental 2019 Huangyan Water Supply Framework Agreement and the 2021 Huangyan Water Supply Framework Agreement. In addition, as Ms. Huang Yuyan, a non-executive Director, is the deputy general manager of and a Director nominated by Taizhou Luqiao Public Assets, the holding company of Taizhou Luqiao Water Supply, she is deemed to have a material interest in the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement. Ms. Huang Yuyan has abstained from voting on the board resolutions in respect of the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement. Save as disclosed above, none of the Directors has material interest in the Supplemental 2019 CCT Agreements and the 2021 CCT Agreements, and therefore no other Director has abstained from voting on such board resolutions.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Zheng Jianzhuang, Ms. Lin Suyan, Ms. Hou Meiwen, Mr. Li Wai Chung, and Mr. Wang Yongyue, has been established to advise the Independent Shareholders as to whether (i) the Supplemental 2019 CCT Agreements and the Further Revised Annual Caps; and (ii) the 2021 Huangyan Water Supply Framework Agreement and the Proposed Annual Caps are in the ordinary course of business of the Company, on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to give a recommendation to the Independent Shareholders in respect of the voting on the resolution to be proposed at the EGM to approve (i) the Supplemental 2019 CCT Agreements, the transactions contemplated thereunder, including the Further Revised Annual Caps; and (ii) the 2021 Huangyan Water Supply Framework Agreement and the transactions contemplated thereunder, including the Proposed Annual Caps. As an Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we, Honestum International Limited, were not aware of any relationships or interests between us and (i) the Group; (ii) Huangyan Water Supply; (iii) Taizhou Luqiao Water Supply and (iv) any other parties during the past two years under the Listing Rules that could be reasonably regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of (i) the Supplemental 2019 CCT Agreements and the transactions contemplated thereunder, including the Further Revised Annual Caps; and (ii) the 2021 Huangyan Water Supply Framework Agreement and the transactions contemplated thereunder, including the Proposed Annual Caps. Save for our appointment as the Independent Financial Adviser, Honestum International Limited did not act as a financial adviser for the Company under the Listing Rules during the past two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the independent financial adviser, no arrangement exist whereby we had received or will receive any fees or benefits from the Company or any other party to the transaction.

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BASIS OF OUR OPINION

In arriving at our recommendation, we have relied on the accuracy of the information and representations contained in the Prospectus, the annual report of the Group for the year ended 31 December 2020, Circular and have assumed that all information and representations made or referred to in the Circular as provided by the management (the “**Management**”) of the Company were true, accurate and complete at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the Management regarding the continuing connected transactions including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Management respectively in the Circular were reasonably made after due enquiry and careful consideration. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have no reason to suspect that any material facts or information have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Management. We have not, however, carried out any independent verification of the information provided by the Management, nor have we conducted an independent in-depth investigation into the business and affairs of (i) the Group; (ii) Huangyan Water Supply; (iii) Taizhou Luqiao Water Supply or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation with regard to the terms of (i) the Supplemental 2019 CCT Agreements and the transactions contemplated thereunder, including the Further Revised Annual Caps; and (ii) the 2021 Huangyan Water Supply Framework Agreement and the transactions contemplated thereunder, including the Proposed Annual Caps, we have taken into account the following principal factors and reasons:

1. Background information of the parties to the Continuing Connected Transactions

1.1 *Information on the Company*

The Company is a leading water supply service provider in Taizhou principally engaged in the supply of raw water and municipal water. The Company also supplies tap water directly to end-users and engages in the installation of the water pipelines for distributing tap water to its end-users in Taizhou.

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1.2 Information on Huangyan Water Supply

Huangyan Water Supply principally engages in the business of centralised water supply services in Huangyan District of Taizhou. As at the Latest Practicable Date, Huangyan Water Supply is ultimately wholly-owned by the Finance Bureau of Huangyan District of Taizhou* (台州市黃岩區財政局) and is indirectly wholly-owned by Huangyan SCIOG. Upon completion of the Acquisition, Huangyan Water Supply will be indirectly held as to 55% by Huangyan SCIOG and 45% by the Company.

1.3 Information on Taizhou Luqiao Water Supply

Taizhou Luqiao Water Supply principally engages in the business of centralised water supply services in Luqiao District of Taizhou. As at the Latest Practicable Date, Taizhou Luqiao Water Supply is ultimately owned as to 96.8% and 3.2% by the State-owned Assets Administration Commission of Luqiao District* (路橋區國有資產管理委員會) and Zhejiang Provincial Department of Finance (浙江省財政廳), respectively.

2. Revision of Original Annual Caps and the Proposed Annual Caps

2.1 Background of the Existing CCT Agreements, the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement and benefits for revising the Original Annual Caps and the Proposed Annual Caps

As disclosed in the Prospectus, the Group has established business cooperation with Huangyan Water Supply and Taizhou Luqiao Water Supply since 1995 and 1996, respectively. On 27 October 2019, the Group entered into the Existing CCT Agreements with Huangyan Water Supply and Taizhou Luqiao Water Supply with a renewable term commencing from 31 December 2019 (being the date of listing of the H shares of the Company on the Stock Exchange) to 31 December 2021 (both days inclusive). The Group further entered into the Supplemental 2019 Huangyan Water Supply Framework Agreement on 13 August 2020 to raise the annual cap for the year ended 31 December 2020 of the raw water supply services from RMB41.3 million to RMB45.7 million while keeping other terms in original agreement unchanged. Pursuant to the Existing CCT Agreements, the Group agreed to provide raw water supply services to Huangyan Water Supply and Taizhou Luqiao Water Supply, respectively.

After considering the sales amounts for the six months ended 30 June 2021 under the Existing CCT Agreements and in view of the continuing and anticipated market demands for raw water supply services in the year ending 31 December 2021, the Directors expect that the Original Annual Caps will not be sufficient to cover all transactions contemplated under the Existing CCT Agreements for the year ending 31 December 2021.

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In view of the above, on 1 September 2021, the Group enters into the Supplemental 2019 CCT Agreements with Huangyan Water Supply and Taizhou Luqiao Water Supply to revise the Original Annual Caps to the Further Revised Annual Caps. Save for the revision of the Original Annual Caps, all terms and conditions of the Existing CCT Agreements remain unchanged. In addition, in light of the upcoming expiration of the 2019 Huangyan Water Supply Framework Agreement with Huangyan Water Supply on 31 December 2021, the Company entered into the 2021 Huangyan Water Supply Framework Agreement with Huangyan Water Supply on 1 September 2021, which adopts substantially the same terms and conditions as the 2019 Huangyan Water Supply Framework Agreement with Huangyan Water Supply, with the Proposed Annual Caps for the three years ending 31 December 2024. The details of the principal terms of the 2021 Huangyan Water Supply Framework Agreement are set out under the section headed “Renewal of Continuing Connected Transactions” in the Letter from the Board.

The Company considers that the Further Revised Annual Caps and the Proposed Annual Caps will allow the Group to maintain a stable supply of raw water to Huangyan Water Supply and Taizhou Luqiao Water Supply, respectively, to cater the changes in the market demands and ensure the Company’s income and business growth.

Having considered the above and the respective background information of the Group, Huangyan Water Supply and Taizhou Luqiao Water Supply, we concur with the Directors’ view that the transactions contemplated under (i) the Supplemental 2019 CCT Agreements, including the Further Revised Annual Caps; and (ii) the 2021 Huangyan Water Supply Framework Agreement, including the Proposed Annual Caps, are entered into in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

2.2 Principal terms of the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement

Subject matter

For the Second Supplemental 2019 Huangyan Water Supply Framework Agreement

Pursuant to the Second Supplemental 2019 Huangyan Water Supply Framework Agreement, the Company agreed to provide raw water supply services to Huangyan Water Supply for the year ending 31 December 2021.

For the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement

Pursuant to the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement, Taizhou City Water agreed to provide raw water supply services to Taizhou Luqiao Water Supply for the year ending 31 December 2021.

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For the 2021 Huangyan Water Supply Framework Agreement

Pursuant to the 2021 Huangyan Water Supply Framework Agreement, the Company agreed to provide raw water supply services to Huangyan Water Supply for the three years ending 31 December 2024.

Pricing basis

The prices of both sales of raw water supply services to Huangyan Water Supply and Taizhou Luqiao Water Supply to be provided by the Group shall be determined on the basis of (i) the water prices as approved by Taizhou DRC; and (ii) the price adjustment as fixed and promulgated by Taizhou DRC.

Payment term

Payment for the transactions contemplated under the Supplemental 2019 CCT Agreements and 2021 Huangyan Water Supply Framework Agreement shall be made every month on the basis of the volume of water supplied by the Group.

Comparison of terms with Independent Third Parties

We have discussed with the representatives of the Group, the pricing basis and payment terms of the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement as set out above and the relevant terms under the Existing CCT Agreements. We have also obtained and reviewed samples of raw water supply agreements signed with independent third parties (the “**Sample Contracts**”) provided by the Group. Having compared the pricing basis for the raw water charged to Huangyan Water Supply and Taizhou Luqiao Water Supply, respectively, with the pricing basis in the Sample Contracts and based on the aforementioned discussion with the representatives of the Group, we noted that the same pricing basis is consistently adopted where the unit prices charged are based on the water price determined and approved by Taizhou DRC. Furthermore, in assessing whether the payment term in the water supply agreements with Huangyan Water Supply and Taizhou Luqiao Water Supply is fair and reasonable, we have reviewed the Sample Contracts and noted that their payment term is consistent with those stipulated in the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement.

Based on the above, we consider that the pricing basis and the payment term in relation to the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement and the transactions contemplated thereunder are on normal commercial terms and are set at a fair and reasonable basis.

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2.3 *The Further Revised Annual Caps and the Proposed Annual Caps*

For the Second Supplemental 2019 Huangyan Water Supply Framework Agreement

Set out below are the historical transaction amounts for the year ended 31 December 2020 and the six months ended 30 June 2021, the Original Huangyan Annual Cap and the Further Revised Huangyan Annual Cap for the two years ending 31 December 2021:

	For the year ended 31 December 2020 RMB'000	For the six months ended 30 June 2021 RMB'000
Historical transaction amount of raw water supply services	39,540	22,950
Original Huangyan Annual Cap	45,720 ⁽¹⁾	41,829
Utilisation rate of the Original Huangyan Annual Cap	86.5%	54.9%

Notes:

- (1) The annual cap as revised under the Supplemental 2019 Huangyan Water Supply Framework Agreement.

	For the year ended 31 December 2020 RMB'000	For the six months ended 30 June 2021 RMB'000
Further Revised Huangyan Annual Cap	N/A	50,620
Utilisation rate of the Further Revised Huangyan Annual Cap	N/A	45.3%
Approximate % of increase in the Further Revised Huangyan Annual Cap as compared to the Original Huangyan Annual Cap	N/A	21.0%

The Directors confirm that the Original Huangyan Annual Cap for the provision of raw water supply services for the year ending 31 December 2021 have not been exceeded up to the date of this letter.

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For the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement

Set out below are the historical transaction amounts for the year ended 31 December 2020 and the six months ended 30 June 2021, the Original Taizhou Luqiao Raw Water Annual Cap and the Revised Taizhou Luqiao Raw Water Annual Cap for the two years ending 31 December 2021:

	For the year ended 31 December 2020 RMB'000	For the six months ended 30 June 2021 RMB'000
Historical transaction amount of raw water supply services	30,455	16,841
Original Taizhou Luqiao Raw Water Annual Cap	32,089	32,424
Utilisation rate of the Original Taizhou Luqiao Raw Water Annual Cap	94.9%	51.9%
	For the year ended 31 December 2020 RMB'000	For the six months ended 30 June 2021 RMB'000
Revised Taizhou Luqiao Raw Water Annual Cap	N/A	36,000
Utilisation rate of the Revised Taizhou Luqiao Raw Water Annual Cap	N/A	46.8%
Approximate % of increase in the Revised Taizhou Luqiao Raw Water Annual Cap as compared to the Original Taizhou Luqiao Raw Water Annual Cap	N/A	11.0%

The Directors confirm that the Original Taizhou Luqiao Raw Water Annual Cap for the provision of raw water supply services for the year ending 31 December 2021 have not been exceeded up to the date of this letter.

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For the 2021 Huangyan Water Supply Framework Agreement

Set out below are the historical transaction amounts and the annual caps:

	Year ended/ending on 31 December					
	2019	2020	2021	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Historical transaction amount of raw water supply services to Huangyan Water Supply	38,733	39,540	Nil (up to the Latest Practicable Date)	N/A	N/A	N/A
Original and Further Revised Huangyan Annual Cap	38,941	45,720 ⁽¹⁾	50,620 ⁽²⁾	N/A	N/A	N/A
Utilisation rate	99.5%	86.5%	N/A	N/A	N/A	N/A
Proposed Annual Caps	N/A	N/A	N/A	55,250	56,790	58,480

Notes:

- (1) The annual cap as revised under the Supplemental 2019 Huangyan Water Supply Framework Agreement.
- (2) The annual cap as revised under the Second Supplemental 2019 Huangyan Water Supply Framework Agreement.

We have obtained and reviewed the calculation of the Further Revised Annual Caps and the Proposed Annual Caps from the Company and discussed with the representatives of the Group regarding the basis for determining the Further Revised Annual Caps and the Proposed Annual Caps. We understand that the Further Revised Annual Caps and the Proposed Annual Caps are determined with reference to the Group's revised projection of sales and the water supply capacity to Huangyan Water Supply for FY2021 to FY2024 and Taizhou Luqiao Water Supply for FY2021, the basis of which has taken into consideration of (i) the unaudited historical transaction amounts with Huangyan Water Supply and Taizhou Luqiao Water Supply for the six months ended 30 June 2021 provided by the Group; (ii) the growing demand for raw water due to the outbreak of the coronavirus pandemic in the PRC in 2020; (iii) the increasing demand for raw water from Huangyan Water Supply due to the shut down of its self-owned reservoir; and (iv) the increased allocation of raw water to Taizhou Luqiao Water Supply due to the safety reason in relation to the supplying capacity for other areas in Taizhou.

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(i) Historical transaction amounts

Based on our discussion with the representatives of the Group and the unaudited financial information in respect of the six months ended 30 June 2021 provided to us, the sales amounts to Huangyan Water Supply and Taizhou Luqiao Water Supply for the six months ended 30 June 2021 were approximately RMB23.0 million and RMB16.8 million, respectively, which accounted for approximately 54.9% and 51.9% of their respective Original Annual Caps. Based on the historical water supply statistics provided by the Group, the representatives of the Group advised that the total water supply of the second half year usually will be higher than first half year. As a result, the Directors expect that the Original Taizhou Luqiao Raw Water Annual Cap and the Original Huangyan Annual Cap will not be sufficient to meet the Group's requirements for the year ending 31 December 2021.

(ii) Growing demand for raw water

Since the outbreak of the coronavirus in the PRC in January 2020, the Management has observed that there may be a change in the residents' cleaning habits. The general public in Taizhou had become more aware of health and hygiene in order to minimise the chance of contracting the coronavirus, resulting in higher frequency of cleaning in both household and commercial settings in addition to the increase in the water consumption on the personal level, and hence the increase in the use of water supply. This tendency has resulted and would likely continue to result in an increase in demand for the Group's provision of raw water services. Based on the information provided by the Group, the raw water supplied to Huangyan Water Supply and Taizhou Luqiao Water Supply for the six months ended 30 June 2021 increased by approximately 9.0% and 15.9%, respectively, as compared with their consumption in the corresponding period in 2020.

Based on the views of healthcare experts and global leaders from public sources, it is uncertain as to when the coronavirus outbreak will be put to an end and seasonal revival of the coronavirus may be possible. The Directors are of the view that the potential recurrence of the coronavirus outbreak may likely have an impact on cleaning habits of the general public, rendering the general public more accustomed to the higher frequency of cleaning, which will in turn increase the consumption of water. The Further Revised Annual Caps and the Proposed Annual Cap will ensure a stable supply of raw water from the Group to respond to the increase in market demands.

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(iii) Increasing demand for raw water from Huangyan Water Supply

Based on our discussion with the representatives of the Group, apart from the Group, a local reservoir also supplied raw water to Huangyan Water Supply. However, such local reservoir has been shut down for reinforcement project since the fourth quarter of 2020. As there is no guarantee that such reinforcement project will be completed within a short period, the Management is of the view that the demand of raw water from Huangyan Water Supply may increase for the forthcoming years in order to replace the original water supply from such local reservoir. The Management consider that the Further Revised Annual Caps and the Proposed Annual Cap would enable the Group to respond better to such increase in demand from Huangyan Water Supply.

(iv) Increased allocation of raw water to Taizhou Luqiao Water Supply

As discussed with the Management, since there is a growing demand of municipal water in other areas in Taizhou, the Company has to increase the allocation of municipal water to those areas. However, due to the limitation of the municipal water supply capacity of Taizhou Water Supply System (Phase II), the Company has to decrease the municipal water allocation to Taizhou Luqiao Water Supply for safety reason. In order to replenish such decrease in municipal water allocation and satisfy the total water demand from Taizhou Luqiao Water Supply, the Company has increased the allocation of raw water to Taizhou Luqiao Water Supply through the Taizhou Water Supply System (Phase I). As a result, the Directors expect that the Original Taizhou Luqiao Raw Water Annual Cap will not be sufficient to meet the Group's requirements for the year ending 31 December 2021.

In conclusion, the Directors are of the view that as a public utilities service provider, it is of paramount importance for the Company to discharge their social responsibility to the general public by providing a steady and reliable supply of raw water in light of the increase in demand. Having considered the above analysis, we consider the Further Revised Annual Caps and the Proposed Annual Caps are fair and reasonable.

However, the Further Revised Annual Caps and the Proposed Annual Caps under the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement are determined based on information currently available to the Company and the analysis as set out above, and the utilisation of the respective Further Revised Annual Caps and the Proposed Annual Caps refer to future events associated with factors and uncertainties which may beyond the control of the Management. Hence, we express no opinion as to the accuracy and the actual utilisation of the Further Revised Annual Caps and Proposed Annual Cap under the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement.

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INTERNAL CONTROL AND ANNUAL REVIEW OF THE CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Letter from the Board, the Company has adopted the following internal control procedures to ensure the transactions under the Supplemental 2019 CCT Agreements and 2021 Huangyan Water Supply Framework Agreement are in the interests of the Group and the Shareholders as a whole and in the compliance with the Listing Rules:

- (i) The finance department of the Company shall regularly monitor the caps of connected transactions, count the accumulated amounts of transactions with Huangyan Water Supply and Taizhou Luqiao Water Supply by the end of the month on a monthly basis and report to the Management the unutilised balance of the annual caps by the end of each month, to ensure the applicable annual caps are not exceeded. When the projected transaction amount approaches or reaches the applicable annual caps, the Company shall revise the annual cap in accordance with the internal control procedures governing the connected transactions;
- (ii) The finance department of the Company will regularly keep abreast of the changes in policies for the water price promulgated by Taizhou DRC from time to time to ensure that the water price approved by the government authorities is timely executed;
- (iii) The production departments of the Group will closely monitor and report any circumstances which may have impact on the applicable annual cap under the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement such as water price adjustment as fixed and promulgated by the relevant government authorities;
- (iv) The external auditors of the Group will issue a letter to the Board in relation to the continuing connected transactions, including the transactions under the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, for each financial year in accordance with Rule 14A.56 of the Listing Rules; and
- (v) The independent non-executive Directors of the Company will conduct an annual review with respect to the continuing connected transactions, including the transactions under the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement for each financial year, and give confirmation in accordance with Rules 14A.55 and 14A.71 of the Listing Rules.

LETTER FROM HONESTUM

In addition, we also noted that the Company has the following internal control measures in place to ensure that the continuing connected transactions are conducted on normal commercial terms:

- (i) the connected party(ies) with material interests in the connected transactions shall abstain from voting in respect of the resolution at the shareholders' meeting;
- (ii) the Group shall comply with the relevant reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules for the continuing connected transactions; and
- (iii) the Group will duly disclose the continuing connected transactions in the Company's annual reports and accounts during each of the financial period, together with the conclusions drawn by the independent non-executive Directors.

We noted from the above the Group has adopted a set of internal control procedures governing the Group's transactions with Huangyan Water Supply and Taizhou Luqiao Water Supply and considered that the procedures in place provide reasonable assurance that the conduct of the continuing connected transactions would be governed by the management level and in compliance with the terms and conditions as stated in the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement. Further, we noted from the annual report of the Group for the year ended 31 December 2020, that the auditor of the Company has reported on the Group's continuing connected transactions (including the transactions under the Existing CCT Agreements) in accordance with Rule 14A.56 of the Listing Rules and the independent non-executive Directors have also reviewed and confirmed that each of the continuing connected transactions of the Group (including the transactions under the Existing CCT Agreements) during the year ended 31 December 2020 has been (i) entered into in the ordinary and usual course of business of the Group; (ii) conducted on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholder as a whole.

In light of the above, we are of the view that appropriate measures have been in place to govern the conduct of the continuing connected transactions under the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement and safeguard the interests of the Independent Shareholders and the Company as a whole.

LETTER FROM HONESTUM

RECOMMENDATION

Having taken into account the factors and reasons as stated above, we consider that the terms of (i) the Supplemental 2019 CCT Agreements, including the Further Revised Annual Caps; and (ii) the 2021 Huangyan Water Supply Framework Agreement, including the Proposed Annual Cap, are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM for approving the continuing connected transactions.

Yours faithfully,

For and on behalf of

Honestum International Limited

Michael Chum

Chairman

Jacky Chu

Associate Director

Note: Mr. Michael Chum is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Honestum International Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 25 years of experience in corporate finance industry. Mr. Jacky Chu is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Honestum International Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 8 years of experience in corporate finance industry.

The following is an English translation of the summary of the Huangyan Water Supply Valuation Report, which is prepared by the Independent Valuer for the purpose of, among others, inclusion in this circular. The Huangyan Water Supply Valuation Report is prepared in Chinese and this English translation is provided for your reference only. In the event of any inconsistency between the Chinese and English versions, the Chinese version shall prevail.

**Summary of the Asset Valuation Report in relation to the
Proposed Acquisition of Equity Interests of
Taizhou Huangyan Urban and Rural Water Supply Co., Ltd.
by Taizhou Water Group Co., Ltd.**

Kun Yuan Ping Bao (2021) No. 510

I. PURPOSE OF VALUATION

Pursuant to the Notice by the Municipal Committee Office of Taizhou and the Taizhou Municipal People's Government Office on the Issue of Implementation Opinions on the Reform of Integration of Water Supply in Taizhou (Tai Shi Wei Ban [2018] No. 28), Taizhou Water Group Co., Ltd. proposes to acquire the equity interest of Taizhou Huangyan Urban and Rural Water Supply Co., Ltd., and it is necessary to assess the value of total shareholders' equity of Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. that such an economic activity involves.

The purpose of the valuation is to provide a reference basis for the value of total shareholders' equity of Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. to the economic activity.

II. TARGET AND SCOPE OF VALUATION

The target of the valuation is the total shareholders' equity of Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. that the aforesaid economic activity involves.

The scope of the valuation is all the assets and relevant liabilities as at 30 April 2021 that are reported by Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. and audited by Zhejiang Huacheng Certified Public Accountants Co., Ltd., including current assets, non-current assets, current liabilities and non-current liabilities. As reflected in the financial statements as at 30 April 2021 (adopting the same basis as that of the financial statements of parent company) which are provided by Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. and audited by Zhejiang Huacheng Certified Public Accountants Co., Ltd., the book value of assets, liabilities and shareholders' equity are RMB551,109,180.20, RMB487,447,352.41 and RMB63,661,827.79, respectively.

III. ECONOMIC AND INDUSTRY ANALYSIS

(I) Analysis of macro and regional economic factors

1. *Analysis of macro-economic factors*

Based on the preliminary estimate, GDP of the first quarter of 2021 amounted to RMB24.931 trillion, representing a year-on-year increase of 18.3% and a month-on-month increase of 0.6% over the fourth quarter of 2020 in terms of comparable price. It increased by 10.3% over the first quarter of 2019 and has had an average increase of 5.0% over two years. In terms of sector, the primary industry reported value added of RMB1.1332 trillion, representing a year-on-year growth of 8.1% and an average increase of 2.3% in two years; the secondary industry recorded value added of RMB9.2623 trillion, representing a year-on-year increase of 24.4% and an average increase of 6.0% in two years; the tertiary industry recorded value added of RMB14.5355 trillion, representing a year-on-year increase of 15.6% and an average increase of 4.7% in two years. On the one hand, GDP in the first quarter increased by 18.3% year-on-year, which was affected by incomparable factors such as the lower base recorded in the previous year and the increase of employees' working days due to local celebration of new year. On the other hand, GDP increased by 0.6% month-on-month in the first quarter and 5.0% on average in the years, which shows the steady recovery of China economy.

2. *Analysis of regional economic factors*

Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. is located in Taizhou, Zhejiang Province. Taizhou is a prefecture-level city of Zhejiang Province, one of the 27 cities of the core region of Yangtze River Delta, and the regional core city and modern port city in the coastal areas of Zhejiang Province which is approved by the State Council. Based on the preliminary estimate, from January to April 2021, driven by positive factors such as the low base recorded in the same period of last year, staying put during Spring Festival, early resumption of work and production, and gradual recovery of market demand, Taizhou's economy was in general high and stable. However, in April, affected by the base increase and other factors, Taizhou's economy showed a downward trend in that month.

(II) Industry analysis**1. Industrial classification**

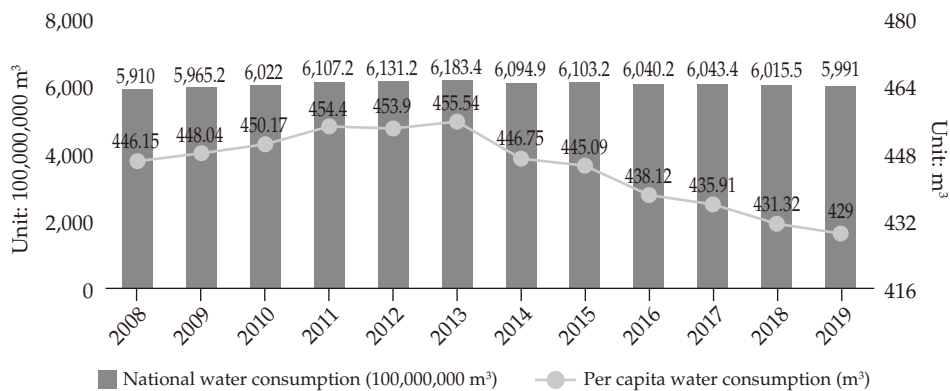
Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. principally engages in the business of water supply. According to the industrial classification standard contained in the Industrial Classification for National Economic Activities (GB/T4754-2011), the industry to which it belongs is “water production and supply” (industry code: D4610) under “water production and supply industry” (industry code: D46).

2. Development of water supply industry**(1) National water consumption**

The economic and social development creates a huge demand for water, and the water demand grows with China’s continuous and rapid economic development and ever-increasing population.

In 2019, the national water consumption was 599.1 billion m³, representing a year-on-year decrease of 0.4% compared to that of 2018, and the per capita water consumption was 429 m³.

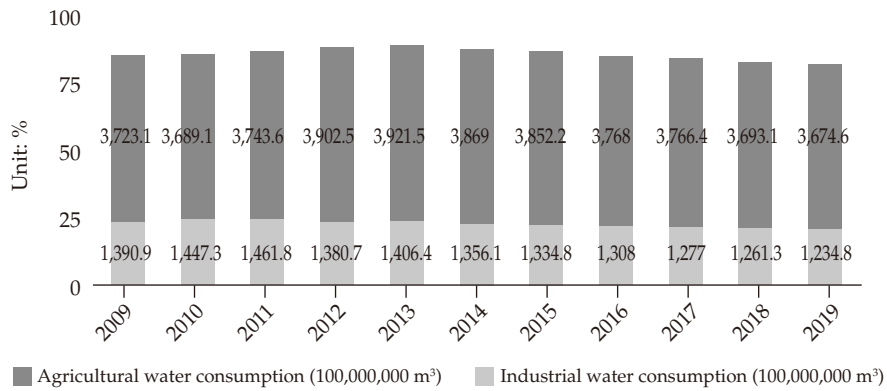
**Changes of National Water Consumption and
Per Capita Water Consumption in China from 2008 to 2019**



Source: the National Bureau of Statistics of China (“NBS”),
Forward Business and Intelligence Co., Ltd. (“Forward Intelligence”)
@ FORWARD-THE ECONOMIST APP

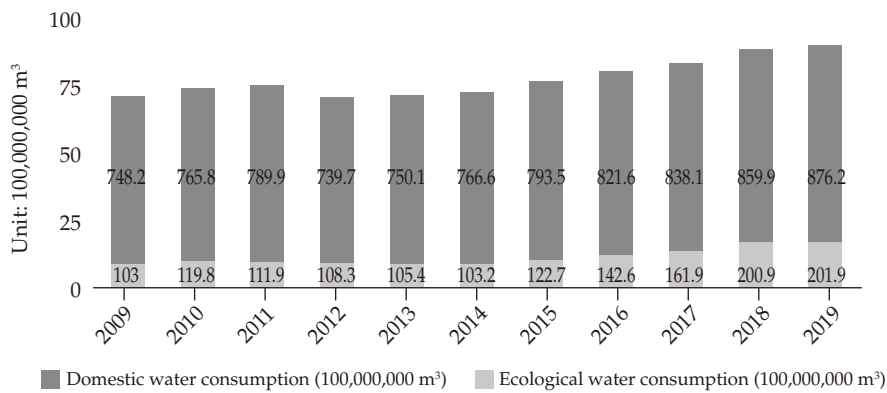
In terms of China’s structure of water resource consumption in 2019, agricultural, industrial, domestic and ecological water consumptions reached 367.46 billion m³, 123.48 billion m³, 87.62 billion m³ and 20.19 billion m³, respectively.

China’s Structure of Water Resource Consumption in 2019



Source: the NBS, Forward Intelligence
@ FORWARD-THE ECONOMIST APP

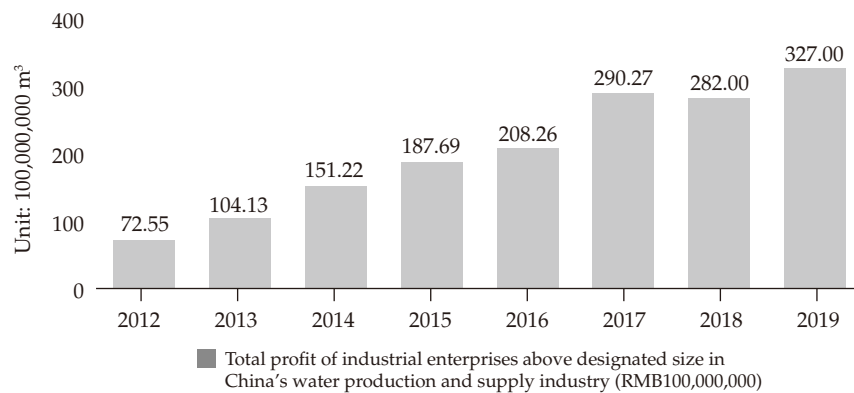
China’s Structure of Water Resource Consumption in 2019



Source: the NBS, Forward Intelligence
@ FORWARD-THE ECONOMIST APP

According to data of the NBS, from 2012 to 2018, industrial enterprises above designated size in China's water production and supply industry recorded steady year-on-year growth in both revenue and profits from their principal businesses, with compound growth rates reaching 12.52% and 25.44%, respectively. In 2018, China had 1,934 water supply enterprises above designated size, whose revenue from principal businesses reached RMB260 billion; cost of principal businesses exceeded RMB190 billion; and total profit was around RMB28 billion.

Total Profit of Industrial Enterprises Above Designated Size in China's Water Production and Supply Industry from 2012 to 2019



Source: the NBS, Forward Intelligence
@ FORWARD-THE ECONOMIST APP

To meet the increasing water demand from urban water users, China's comprehensive urban water supply capacity has been growing steadily over the recent ten years. According to data of the NBS, as of the end of 2018, the comprehensive urban water supply capacity reached 312 million m³/day, which included 32.88 billion m³ of domestic water consumption and covered 503 million people. The daily domestic water consumption per capita was 179.7 liters, and the water penetration rate was 98.36%.

China's Comprehensive Urban Water Supply Capacity from 2010 to 2018

Year	Comprehensive water supply capacity (100,000,000 m ³ / day)	Length of water pipelines (10,000 km)	Total water supply (100,000,000 tonnes)	Population with access to water (100,000,000)	Water penetration rate (%)
2010	2.76	54	507.9	3.82	96.68%
2011	2.67	57.4	513.4	3.97	97.04%
2012	2.72	59.2	523	4.1	97.16%
2013	2.81	64.6	537.3	4.23	97.56%
2014	2.87	67.7	546.7	4.35	97.64%
2015	2.97	71	560.5	4.51	98.07%
2016	3.03	75.7	580.7	4.7	98.42%
2017	3.05	79.7	593.8	4.83	98.30%
2018	3.12	86.7	614.6	5.03	98.36%

Source: the NBS, Forward Intelligence
@ FORWARD-THE ECONOMIST APP

(2) Great potential of the rural water supply market

Rural water supply programs form an integral part of development-oriented poverty alleviation. The Outline for Development-oriented Poverty Alleviation of China's Rural Areas states that by 2020, the water security and penetration rate in rural areas will be further improved on the basis of basically addressing the availability of drinking water.

In January 2016, six ministries including the National Development and Reform Commission (the "NDRC"), the Ministry of Water Resources, the Ministry of Finance, the National Health and Family Planning Commission, the Ministry of Environmental Protection and the Ministry of Housing and Urban-Rural Development ("MOHURD") jointly released the Notice on the Work for Improving the Drinking Water Safety in Rural Areas and Preparing the Plan in "13th Five-Year Plan" Period, which set the objectives that by 2020, the safe and centralised water supply rate in China's rural areas would stay above 85%; the water penetration rate would be over 80%; the rate of water quality reaching the standard would be significantly improved; and the water

supply guarantee of small projects would not be lower than 95%. Public services of urban water supply would be extended to rural areas to improve the proportion of villages covered by the urban water supply network to 33%. China has a great potential in water supply project construction, especially in urban built-up areas, village areas and rural areas in central and western China.

(3) *Continuous market growth boosted by urbanisation*

Since the 1990s, China's urbanisation has been accelerating. In recent years, China's urbanisation rate grows continuously, which stimulates rural people flock to cities, and rural residents and workforce engaged in agriculture will significantly decrease. China's urbanisation rate improves continuously from 26.44% in 1990 to 60.60% in 2019, but it still lags far behind the advanced countries. As urbanisation is promoted and urban population increases, the original urban water supply system and wastewater treatment system bear greater operation pressure year-on-year. Some cities opt to upgrade and renovate the existing facilities to improve the capacity, and some cities prefer to build new water supply and wastewater treatment systems. The said construction projects boost the continuous growth of the water market and also stimulate the rapid development of the industry.

IV. COMPANY OVERVIEW

Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. principally engages in the business of water supply. Currently, it supplies water to Huangyan District of Taizhou with a daily water supply capacity of 200,000 m³ and over 1,000-kilometer-long water pipelines, serving over 150,000 households covering an area over 360 km². The company has 15 functional departments, including the general office, water factory, business department and installation department. It has 132 employees, including 70 technical specialists.

V. VALUATION REFERENCE DATE

To make the valuation reference date (the "Valuation Reference Date") close to the dates of proposed economic activity and valuation work, the client determines the Valuation Reference Date as 30 April 2021, and includes the relevant agreement in the engagement contract.

The Valuation Reference Date is determined by the client based on the actual conditions of this project, taking into account factors that the Valuation Reference Date is closest to the date of materialising the economic activity and that there will be fewest adjustments after the Valuation Reference Date.

VI. PERFORMANCE OF VALUATION PROCEDURES**(I) Asset verification stage**

1. The appraisal agency provides the appraised entity with the sample of Asset Reporting Form for Valuation according to the requirements of asset valuation, and assists the appraised entity to check the assets;
2. Understand basic conditions of the appraised entity and conditions of assets to be appraised, and collect relevant information;
3. Review and verify the Asset Reporting Form for Valuation and the relevant calculation materials provided by the appraised entity;
4. Conduct on-site verification and investigation based on the content of Asset Reporting Form for Valuation, collect relevant information of asset acquisition and construction, operation and maintenance, and check and record asset conditions;
5. Collect property rights proof including contracts and invoices related to assets to be appraised, and verify the asset ownership;
6. Collect and analyse industry data to understand the competitiveness and risks of the appraised entity;
7. Obtain information including historical revenues, costs and expenses of the appraised entity to understand its existing production capability and development plans;
8. Collect and verify other relevant information that is necessary for the asset valuation.

(II) Estimate stage

1. Prepare specific valuation methods for each type of assets based on the actual conditions and characteristics of assets to be appraised;
2. Collect market information;
3. Value the assets to be appraised and estimate their appraised values;
4. Based on the future earnings forecast materials provided by the appraised entity, taking into consideration actual conditions of the appraised entity, review the relevant information, reasonably determine valuation assumptions, and formulate the future earnings forecast;

analyse and compare each category of parameters, select specific calculation methods, and determine the valuation result.

VII. VALUATION METHODS

(I) Selection of valuation methods

According to the existing asset valuation standards and relevant provisions, basic methods for assessing the value of an enterprise include asset-based approach, market approach and income approach.

Given the characteristics of the enterprise under the valuation, it is difficult for valuers to identify comparable companies that are similar to the enterprise to be appraised in the open market. In addition, as the current marketisation and informationisation in China is at relatively low levels, it is difficult to collect sufficient equity transactions of similar enterprises. It is also impossible to acquire information of factors and conditions that affect prices of the aforesaid transactions through open and regular channels and to adjust the transaction prices through quantifying each category of factors to correction coefficients. Therefore, the adoption of market approach has valuation technical defects, and it is inappropriate to adopt the market approach for the present valuation.

Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. principally engages in the business of water supply and belongs to the asset-heavy industry. Despite the relatively low profits in recent years, its cash flows are acceptable, and its future earnings can be reasonably forecast under the circumstance that it can continue to operate the existing business content and scope, with the discount rate corresponding to the risk levels associated with its future earnings to be reasonably estimated as well. Therefore, it is appropriate to adopt the income approach for the present valuation.

As each category of assets and liabilities of the appraised entity can be reasonably identified in accordance with accounting policies, its business operation and other conditions, the valuation has the condition to select appropriate and specific valuation methods based on the characteristics of each category of assets and liabilities and the operation condition to perform such valuation methods. Therefore, it is appropriate to adopt the asset-based approach for the present valuation.

Taking into account the target and purpose of asset valuation and the information collected by valuers, the asset-based approach and the income approach are adopted in the present valuation to respectively assess the value of total shareholders' equity of Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. to be appraised.

(II) Introduction of asset-based approach

The asset-based approach is a valuation method which is based on the balance sheet of the appraised entity as at the Valuation Reference Date, reasonably assesses the values of assets and liabilities recorded in the balance sheet and identifiable off-balance sheet assets and liabilities, and determines the value of the valuation target. The approach is based on the assumption of replacing production elements. According to the specific conditions of each breakdown of assets to be appraised, the appropriate method is selected to estimate the value of each breakdown of assets, sums them up and then deducts the value of relevant liabilities to arrive at the appraised value of the total shareholders' equity. The formula is:

Appraised value of total shareholders' equity = Σ Appraised values of each breakdown of assets - Σ Appraised values of each breakdown of liabilities

(III) Introduction of income approach

The income approach is a valuation method that determines the value of valuation target by capitalising or discounting the expected income of the appraised entity.

1. Model of income approach

Considering the purpose and the target, the valuation adopts the free cash flow for the firm (FCFF) discount model to determine the value of FCFF, analyses the value of surplus assets and non-operating assets to measure the overall value of the enterprise, and deducts its interest-bearing debts to determine the value of total shareholders' equity. The specific formula is:

Value of total shareholders' equity = Overall value of the enterprise – Interest-bearing debts

Overall value of the enterprise = Appraised value of FCFF + Value of surplus assets + Value of non-operating assets – Value of non-operating liabilities

$$\text{Appraised value of FCFF} = \sum_{t=1}^n \frac{CFF_t}{(1+r_t)^t} + P_n \times (1 + r_n)^{-n}$$

Where: n – definite forecast years

CFF_t – cash flow for the firm in the tth year

r – weighted average cost of capital

t – the tth year in the future

P_n – going concern value after the nth year

2. *Determination of income period and forecast period*

The valuation assumes that the period of the enterprise's continued existence is perpetual period, and the income period is indefinite period. It adopts the sectioning method to forecast the incomes of the enterprise, which means that the enterprise's future incomes are divided into those of definite forecast period and those after definite forecast period. The determination of definite forecast period comprehensively considers the cyclicity of industry products and the development of relevant enterprises. Based on valuers' market research and forecast, it is appropriate to adopt five years (being the end of 2025) as the section point.

3. *Determination of income – cash flow*

The expected incomes in the valuation are based on the FCFF, with the formula shown below:

FCFF = Profit before interest but after tax + Depreciation and amortization – Increase of working capital – Capital expenditures

Profit before interest but after tax = Revenue – Costs of operation – Taxes and surcharges – General and administrative expenses – Operating expenses – Finance costs (other than interest expenses) – Asset impairment losses + Non-operating revenue – Non-operating expenses – Income taxes

4. *Determination of discount rate*

The appraised value of FCFF corresponds to the value of owners' equity and the value of creditors' equity, and the corresponding discount rate is the weighted average cost of capital (WACC) of the enterprise's capital.

$$WACC = K_e \times \frac{E}{E + D} + K_d \times (1 - T) \times \frac{D}{E + D}$$

Where: WACC – weighted average cost of capital;

K_e – cost of equity;

K_d – cost of debt;

T – income tax rate;

D/E – capital structure.

The cost of debt K_d adopts the LPR applicable on the Valuation Reference Date, and the weight is calculated by adopting the average debt composition of listed companies in the same industry where the enterprise operates.

The cost of equity is calculated by adopting the international generally accepted CAPM model, with the formula shown below:

$$K_e = R_f + Beta \times ERP + R_c$$

Where: K_e – cost of equity

R_f – current risk-free interest rate

Beta – systemic risk factor of equity

ERP – market risk premium

R_c – company-specific risk adjustment factor

5. *Value of non-operating assets and surplus assets*

Non-operating assets (liabilities) represent assets (liabilities) not related to operating incomes of the enterprise.

Surplus assets represent the portion of operating assets in excess of those required for the enterprise's normal operation, and include surplus cash and cash equivalents and negotiable securities.

The value of the abovementioned surplus assets and non-operating assets is determined by the appraised value of corresponding assets under the asset-based approach.

6. *Value of interest-bearing debts*

As at the Valuation Reference Date, interest-bearing debts represent bank borrowings and corresponding interest. The appraised value of interest-bearing debts is the verified book value.

VIII. VALUATION ASSUMPTIONS

1. **Basic assumptions**

- (1) The valuation is based on the changes in the subject of title interests of the assets to be appraised. The changes in the subject of title interests include all changes and partial changes of the subject of interests.
- (2) The valuation is based on the assumption of open market transactions.
- (3) The valuation is based on the premise that the appraised entity continues to operate in accordance with the predetermined business objectives, that is, all assets of the appraised entity are still used in accordance with the current use and method, while change of the current use or remaining use unchanged but changing the planning and use method is not considered.

- (4) The valuation is based on the fact that the relevant legal documents, various accounting documents, account books and other information provided by the appraised entity are true, complete, legal and reliable.
- (5) The valuation assumes that the macro-environment is relatively stable, that is, the country's existing macro-economic, politics, policies and industrial policies of the industry in which the appraised entity is located have no major changes, and the socio-economic development is sustained, healthy and stable; the national monetary and financial policies remain in the current state and will not cause major fluctuations in the social economy; national taxation maintains the current regulations, tax types and tax rates have no major changes; the country's current interest rates, exchange rates, etc. have no major changes.
- (6) The valuation assumes that the business environment of the appraised entity is relatively stable, that is, there are no major changes in the social, political, legal, and economic business environment of the appraised entity's main business premises and the areas in which it operates; there are no policy, legal or man-made obstacles for the appraised entity to carry out business activities within its established business scope.

2. Specific assumptions

- (1) The profit forecast in the valuation is based on the development plan and profit forecast provided by the appraised entity;
- (2) It is assumed that the management of the appraised entity is diligent and responsible, has sufficient management skills and good professional ethics, and conducts various businesses legally and in compliance with laws, and the management and principal business of the appraised entity remains relatively stable;
- (3) It is assumed that the appraised entity fully complies with all relevant laws and regulations, and the acquisition and use of all its assets comply with national laws, regulations and regulatory documents;
- (4) It is assumed that the operating income, costs and transformation expenditures of the appraised entity in each year are incurred evenly throughout the year;
- (5) It is assumed that there are no material adverse effects on the enterprise caused by other force majeure factors beyond the control of human and unforeseeable factors;

- (6) It is assumed that the accounting policies adopted by the appraised entity during the earnings forecast period are consistent with the accounting policies adopted on the Valuation Reference Date in all major aspects.

According to the requirements of asset evaluation, the valuer determines that these preconditions are established on the Valuation Reference Date. In the event of changes to the above evaluation preconditions and assumptions, the valuation conclusion will become invalid.

IX. EVALUATION BASIS

(1) Economic Behavior Basis

Notice on the issue of Implementation Opinions on the Reform of Integration of Water Supply in Taizhou issued by the Municipal Party Committee Office of Taizhou and the Taizhou Municipal People's Government Office (Tai Shi Wei Ban [2018] No. 28).

(2) Legal and Regulation Basis

1. Asset Appraisal Law (《資產評估法》);
2. Measures for the Administration of State-owned Asset Valuation (《國有資產評估管理辦法》);
3. Provisions on Certain Issues Concerning the Management of the Valuation of State-owned Assets (《國有資產評估管理若干問題的規定》);
4. Interim Regulations on Supervision and Administration of State-owned Assets of Enterprises (《企業國有資產監督管理暫行條例》);
5. Interim Measures for the Administration of the Appraisal of State-owned Assets of Enterprises (《企業國有資產評估管理暫行辦法》);
6. Notice on Issues Relating to Strengthening the Management of the Valuation of State-owned Assets of Enterprises (《關於加強企業國有資產評估管理工作有關問題的通知》);
7. Enterprise State-owned Assets Law (《企業國有資產法》);
8. Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises (《企業國有資產交易監督管理辦法》);
9. The Civil Code (《民法典》), etc.;
10. Other laws and regulations related to asset valuation.

(3) Valuation Standard Basis

1. Basic Standards for Asset Valuation (《資產評估基本準則》);
2. Code of Professional Ethics for Assets Valuation (《資產評估職業道德準則》);
3. Code of Practice on Asset Valuation – Asset Valuation Procedures (《資產評估執業準則－資產評估程序》);
4. Code of Practice on Asset Valuation – Asset Valuation Report (《資產評估執業準則－資產評估報告》);
5. Code of Practice on Asset Valuation – Asset Valuation Engagement Contract (《資產評估執業準則－資產評估委託合同》);
6. Code of Practice on Asset Valuation – Asset Valuation Files (《資產評估執業準則－資產評估檔案》);
7. Code of Practice on Asset Valuation – Asset Valuation Methods (《資產評估執業準則－資產評估方法》);
8. Code of Practice on Asset Valuation – Engagement of Experts and Use of Relevant Reports (《資產評估執業準則－利用專家工作及相關報告》);
9. Code of Practice on Asset Valuation – Enterprise Value(《資產評估執業準則－企業價值》);
10. Code of Practice on Asset Valuation – Machinery and Equipment (《資產評估執業準則－機器設備》);
11. Code of Practice on Asset Valuation – Real Property (《資產評估執業準則－不動產》);
12. Code of Practice on Asset Valuation – Intangible Assets(《資產評估執業準則－無形資產》);
13. Guiding Opinions on Types of Value in Asset Valuation (《資產評估價值類型指導意見》);
14. Guiding Opinions on Legal Ownership of Valuation Subjects (《資產評估對象法律權屬指導意見》);
15. Guide to the Valuation Report on State-owned Assets of Enterprises (《企業國有資產評估報告指南》).

(4) Basis of Ownership

1. The business registration certificate and articles of association provided by Taizhou Huangyan Urban and Rural Water Supply Co., Ltd.;
2. Economic contracts, agreements, capital appropriation certificates (vouchers), financial statements and other accounting materials related to the acquisition and use of assets and rights;
3. State-owned construction land use right grant contracts, construction land planning permits, construction work planning permits, immovable property ownership certificates, house ownership certificates, collectively-owned land construction land use certificates, state-owned land use certificates, motor vehicle driving certificates, invoices and other ownership certificates;
4. Other certification documents for property rights.

(5) Basis for Pricing

1. Evaluation declaration form provided by the appraised entity;
2. The audit report and related financial statements of the appraised entity as at the Valuation Reference Date;
3. Quota standards for works in the area where the assets are located: Regulations on Calculation of Costs of Construction Works of Zhejiang Province (2018 edition), Budget Quota for Building Construction and Decoration Works of Zhejiang Province (2018 edition), Budget Quota for General Installation Works of Zhejiang Province (2018 edition), Budget Quota for Public Utilities Works of Zhejiang Province (2018 edition), Budget Quota for Landscape, Antique and Construction Works of Zhejiang Province (2018 edition), Charge Quota for Construction Machinery of Zhejiang Province (2018 edition), Base-period Prices for Building and Installation Materials in Zhejiang Province (2018 edition), Indicators for Investment Estimation of Public Utilities Works – Water Supply Works, Indicators for Investment Estimation of Public Utilities Works – Drainage Works;
4. Price Information for Construction Works in Zhejiang Province (October 2020);
5. Notice of the NDRC on Further Easing Management over Professional Service Pricing for Construction Projects;
6. Notice on Issue of the Measures for Construction Cost Management for Basic Construction Works;
7. Construction work related original information, business contracts, and quotation records, etc.;

8. Survey information on market prices of properties in the area where the assets are located;
9. Quotation Booklet for Electrical and Mechanical Products and other market price information and quotation records;
10. Purchase contracts, invoices and payment vouchers for major equipment and pipelines; technical files, inspection reports, operation records and other information on such equipment;
11. Manual of Data and Parameters Commonly Used in Assets Valuation, Basic Construction Financial Rules, Rate Charging Standards for Engineering Survey and Design and other reference materials for the determination of valuation parameters;
12. Relevant polices, provisions, measures for implementation and other regulatory documents promulgated by Zhejiang Provincial People's Government and related government departments;
13. Historical production and operation information, business planning and revenue projections of the appraised entity;
14. Industry statistics, capacity of relevant industries and markets, market outlook, information on market development and trend analysis, pricing strategies and future marketing approaches, relevant information on companies with similar businesses;
15. Relevant data as retrieved via the RoyalFlush iFinD financial data portal;
16. The LPR as published by the People's Bank of China on the Valuation Reference Date;
17. Accounting Standards for Business Enterprises and other accounting regulations and systems, departmental rules and regulations, etc.;
18. Supporting documents as gathered by valuation professionals for the verification, survey, testing and analysis of assets;
19. Other documents.

X. RESTRICTIONS ON THE USE OF ASSET VALUATION REPORT

1. The asset valuation report may only serve the purpose of valuation stated herein.
2. The asset valuation institution and the valuer will not be held liable or take the consequences, in case the client or other users of the valuation report fail to comply with the relevant laws, administrative regulations and use the report for other purposes than what is stated herein.

3. Any institution and individual shall not use the asset valuation report other than the client, other report users stated in the commission contract for asset valuation, and report users in compliance with laws and administrative regulations.
4. The user of the asset valuation report should correctly understand the valuation conclusion, which is not equal to the achievable price of the valuation object, and the valuation conclusion should not be considered as a guarantee for the achievable price of the valuation object.
5. The validity period of the valuation conclusion is one year, that is from 30 April 2021 (the Valuation Reference Date) to 29 April 2022. When the objective of the valuation is achieved within one year from the Valuation Reference Date, the valuation conclusion shall be a reference of the transaction price. The valuation conclusion shall be re-determined if the one-year limit is exceeded.
6. The valuation conclusion cannot be directly used when significant events occur after the Valuation Reference Date and within the validity period. If there is a change in the quantity of assets, the value of assets should be adjusted accordingly in accordance with the original valuation method; and if there is a material change in the asset pricing standard which has significantly affected the appraised value of assets, the client should promptly engage a valuer to re-determine the valuation conclusion.
7. If any policy change has a significant impact on the valuation conclusion, it should re-determine the valuation date for another valuation.
8. The valuation conclusion shall not be used until the valuation report has been approved or filed with.

XI. EXPLANATIONS ON SPECIAL MATTERS

1. In the assessment of the market value of total shareholders' equity of Taizhou Huangyan Urban and Rural Water Supply Co., Ltd., valuers conduct necessary verification to the legal ownership information of valuation target and relevant assets provided by the appraised entity and the source of such information, and have not noticed any defects in other ownership information of valuation target and relevant assets, except the following matters. It is the responsibility of the appraised entity to provide true, lawful and complete legal ownership information, and the responsibility of valuers is to perform necessary verification to the information provided by the appraised entity. The asset valuation report shall not be taken as the confirmation and assurance of the legal ownership of valuation target and relevant assets. If the appraised entity does not have the ownership or other relevant rights of the aforesaid assets, or is subject to partial restrictions in respect of the ownership or other relevant rights of the aforesaid assets, the valuation conclusion for the said assets and the valuation conclusion for the value of total shareholders' equity of the appraised entity will be affected.

- (1) As at the Valuation Reference Date, 25 buildings (with an aggregated floor area of 6,215.38 m²) stated in the “Valuation Schedule of Fixed Assets – Buildings”, including the gatehouse at the new water supply factory, dosing room of the Yuanqiao Water Plant and Shuangpu Boosting Pump Station have not obtained the immovable property ownership certificates. Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. has provided the original construction information and other relevant information and guarantees that the said assets are owned by itself.
- (2) As at the Valuation Reference Date, the land use right (with an aggregate land area of 6,091.91 m²) stated in Items 1 and 5 in the “Valuation Schedule of Intangible Assets – Land Use Rights” has not obtained the immovable property ownership certificate and relevant procedures are in process. According to the relevant information provided by the company and the actual conditions, the actual use of the aforesaid two parcels of land is allocated land for public facilities. Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. has provided the original acquisition materials and guarantees that the said land is owned by itself.

For the aforesaid buildings and land use right that have not obtained immovable property ownership certificates, valuers take the area data and survey and mapping report provided by the relevant personnel of Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. after site measurement as the calculation basis and include such data in the valuation result. Any difference between such data and the area stated in the certificates or the actual area will affect the valuation result.

2. As at the Valuation Reference Date, Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. provided a guarantee for bank borrowings to Taizhou Huangyan State-owned Capital Investment and Operation Group Co. Ltd., with an amount of RMB200 million with a term from 10 May 2021 to 9 May 2023.

The appraised entity warrants that, save as disclosed above, there were no other contingent events including pledge or charge of assets, external guarantees, pending litigations and significant financial commitments.

3. The pipelines to be appraised commenced construction in 1990s and have been rebuilt for multiple times since then and up to the Valuation Reference Date, and data (including the material, the length) of such pipelines recorded in the books cannot be measured reliably. Therefore, the valuation determines the value of such pipelines by the information of material, length and diameter provided by the enterprise. If the length of pipelines is different from the actual length, or Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. does not have the full ownership of such pipelines, the valuation result will be affected.

4. In the valuation, valuers have not conducted technical inspection to the technical parameter and performance of facilities as at the Valuation Reference Date. After site investigation, valuers make judgements on the assumption that the relevant technical information and operation records provided by the appraised entity is true and valid.

In the valuation, valuers have not conducted technical inspection to the concealed works and interior structures (which cannot be observed directly by eyes) of buildings and structures. After site investigation, valuers make judgements without the assistance of measuring instruments but on the assumption that the relevant project information provided by the appraised entity is true and valid.

5. As most of the water pipes to be appraised, including process pipelines, are underground, valuers verified the authenticity of such assets mainly by obtaining design documents and the relevant distribution maps, project settlement reports, facility and pipeline inspection reports, original accounting evidences and invoices, and conducted random inspections to verify the inspection shafts of some pipelines according to the design and monitoring information stated above.
6. The valuation adopts the impairment treatment to identified fixed asset demolition and retirement or assets recorded in the books but having no physical items. The entity shall perform the due procedures for reporting if it requires accounting treatments.
7. Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. had the following leases and free use as at the Valuation Reference Date:

Lessor	Lessee	Term	Leased property	Area (m^2)	Rent
Ying Yuanpeng (應遠朋)	Taizhou Huangyan Urban and Rural Water Supply Co., Ltd.	2019.8.1- 2023.7.31	Rooms 9 and 10, Block C2, Pukou Village, Toutuo Town, Huangyan District		/ RMB18,800/year
Qiaotou Wang Village Economic Cooperative, Chengjiang Street, Huangyan District, Taizhou	Taizhou Huangyan Urban and Rural Water Supply Co., Ltd.	2020.8.15- 2025.8.14	Six houses on the fourth floor east to Multi-functional Building, Qiaotouwang Village, Chengjiang Street, Huangyan District	168	RMB30,000/year
Taizhou Huangyan Urban and Rural Water Supply Co., Ltd.	Taizhou Huangyan Public Bicycle Development Co., Ltd.	2018.4.1- 2023.3.31	Vacant lot in the southwest corner in Huangyan Jiangkou Waterworks	360	Free

Lessors	Lessee	Term	Leased property	Area (m ²)	Rent
Taizhou Huangyan Urban and Rural Water Supply Co., Ltd.	Huangyan Volunteer Association	2018.6.1–2021.5.31	Auxiliary room on the east side of Block 5 in Qianyangtou Wachangtouju (also known as “public use room in Qianyangtou”)	41.20	Free
Wang Suzhen (王素珍)	Taizhou Huangyan Ningchuan Water Supply Co., Ltd.	2020.3.1–2023.3.1	Land at Changjuexian 88K near the Pump Room in Taizhou Huangyan Ningchuan Water Supply Co., Ltd.	16	RMB100/month
Jin Minrong (金敏荣)	Taizhou Huangyan Ningchuan Water Supply Co., Ltd.	2021.3.1–2023.2.28	Two houses in Ningxi Town Bridge pavilion street	/	RMB1,000/month
Taizhou Huangyan Ningchuan Water Supply Co., Ltd.	China Tower Co., Ltd., Taizhou Branch	2020.1.31–2023.1.30	Land in Huangnitang Mountain, Ningxi Town, Huangyan District	30	RMB16,500/year

Impact of the abovementioned leases on the valuation result was not considered in the valuation under the asset-based approach. The abovementioned leases were considered under the income approach in the calculation of related costs and expenses.

8. In the valuation, valuers have not considered the tax implications related to the valuation appreciation or depreciation of assets.
9. The outbreak of COVID-19 in many countries around the world has greatly affected the macro economy and market information. Currently, the subsequent impact of the pandemic on economic development cannot be estimated accurately, so the valuation has not considered the potential impact the subsequent development of the pandemic may bring to the valuation conclusion as at the Valuation Reference Date.
10. The valuation conclusion is the current market value of total shareholders' equity based on the purpose of the valuation and the assumptions disclosed in the report, without considering the impact on the appraised value caused by the potentially increased or decreased price resulted from the special transaction method, or the impact on the asset value caused by changes of the macroeconomic environment and the natural force and other force majeure. The target of valuation is the value of total shareholders' equity, and the value of any part of shareholders' equity is not necessarily equal to the product of

the value of total shareholders' equity and the shareholding percentage. There may be a premium resulted from the control right or a discount resulted from the lack of control right.

11. When assessing the market value of total shareholders' equity, valuers make necessary and reasonable assumptions according to the current actual conditions and state such assumptions in the asset valuation report. Such assumptions serve as the prerequisites for valuers to conduct the asset valuation. When there are material changes of future economic environment and the aforesaid assumptions, valuers do not have the responsibility to derive a different asset valuation conclusion because of the changes of these prerequisites.
12. The appraisal agency and valuers accept no responsibility in respect of the validity, completeness and truthfulness of information provided by the client of asset valuation and the appraised entity, including business licenses, capital verification reports, audit reports and accounting evidences.
13. In the valuation, for other potential defects of the appraised entity that may affect the valuation conclusion, the appraisal agency and valuers accept no responsibility when the appraised entity has not provided special explanations in the process of asset valuation and valuers are in general unable to notice such defects with their professional experience.

XII. VALUATION CONCLUSION

The appraised total shareholders' equity of Taizhou Huangyan Urban and Rural Water Supply Co., Ltd. using the asset-based approach is RMB283,189,381.24, and using the income approach is RMB31,000,000.00, representing a difference of RMB252,189,381.24 or 813.51%.

After analysis, the valuers considered the implementation of the above two valuation approaches to be normal and the selection of parameters reasonable. Given that the income estimation is based on expectations and judgments on future macro policies and the water supply industry, and that the quality and quantity of data used in the income approach is inferior to that of the asset-based approach due to more uncertainties in the prevailing economic and market environment, and that the water pricing in the water supply industry is subject to macro regulation by the government and cannot be easily adjusted, the valuers are of the view that the valuation results derived using the asset-based approach are more suitable for the purpose of the valuation.

Accordingly, the valuation result under the asset-based approach of **RMB283,189,381.24 (TWO HUNDRED AND EIGHTY-THREE MILLION, ONE HUNDRED AND EIGHTY-NINE THOUSAND, THREE HUNDRED AND EIGHTY-ONE YUAN, AND TWENTY-FOUR CENTS)** was eventually adopted as the appraised value of the total shareholders' equity of Taizhou Huangyan Urban and Rural Water Supply Co., Ltd.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Nature of interest	Class of Shares	Number of Shares held ⁽¹⁾	Approximate percentage of shareholding in the class of Shares in issue (%)	Approximate percentage of shareholding in the total number of Shares in issue (%)
Mr. Yang Yide	Interest of controlled corporation ⁽²⁾	Domestic Shares	10,058,338 (L)	6.71%	5.03%

Notes:

- (1) As at the Latest Practicable Date, the Company had issued 200,000,000 Shares in total, including 150,000,000 Domestic Shares and 50,000,000 H Shares. The letter "L" denotes the person's long position in the Shares.
- (2) Qufeng Holdings Limited, which is owned as to 80% by Mr. Yang Yide, directly held 10,058,338 Domestic Shares. By virtue of the SFO, Mr. Yang Yide was deemed to have an interest in the Shares held by Qufeng Holdings Limited.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, Supervisors or chief executives of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required to be recorded in the register to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

3. DIRECTORS' AND SUPERVISORS' INTERESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Directors and the Supervisors had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2020, being the date to which the latest published audited accounts of the Company were made up.

None of the Directors and the Supervisors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group.

4. DIRECTORS' SERVICE CONTRACT

None of the Directors and the Supervisors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

5. INTEREST OF DIRECTORS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and his/her associates was interested in any business, which competes or is likely to compete, either directly or indirectly, with that of the Group.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or operation position of the Group since 31 December 2020, being the date to which the latest published audited consolidated accounts of the Group were made up.

7. LITIGATION

As at the Latest Practicable Date, the Group was not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

8. EXPERTS' QUALIFICATIONS AND CONSENTS

The qualification of the experts who have provided their advice which are contained in this circular is set out as follows:

Expert	Qualification
Canwin Appraisal Co., Ltd.	an independent valuer qualified in the PRC
Honestum International Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Red Sun Capital Limited	a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

Each of the experts mentioned above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report and/or opinions and/or the references to its name in the form and context in which it respectively appears.

As at the Latest Practicable Date, each of the experts mentioned above (i) did not have any interest, either directly or indirectly, in any assets which had been, since 31 December 2020, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group; and (ii) did not have any shareholding interests in any member of the Group and it did not have any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of any members of the Group.

9. MISCELLANEOUS

- (a) The registered office and the principal place of business in the PRC of the Company are at No. 308 Yin Quan Road, Xicheng Street, Huangyan District, Taizhou, Zhejiang Province, the PRC.
- (b) The H Share registrar and transfer office in Hong Kong of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (c) The joint company secretaries of the Company are Ms. Zheng Ranhan and Ms. Siu Pui Wah, who is a certified public accountant and a member of the Hong Kong Institute of Certified Public Accountants.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Jingtian & Gongcheng LLP at Suites 3203-3207, 32/F., Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong, during normal business hours from the date of this circular up to and as at the date of the EGM:

- (a) the letter from the Independent Board Committee, the text of which is set out on pages 40 to 41 of this circular;
- (b) the letter from Red Sun Capital Limited to the Independent Shareholders, the text of which is set out on pages 42 to 59 of this circular;
- (c) the letter from Honestum International Limited to the Independent Shareholders, the text of which is set out on pages 60 to 74 of this circular;
- (d) the Huangyan Water Supply Valuation Report, the summary of which is set out in Appendix I to this circular;
- (e) the Huangyan Equity Transfer Agreement;
- (f) the 2019 Huangyan Water Supply Framework Agreement;
- (g) the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement;
- (h) the Supplemental 2019 Huangyan Water Supply Framework Agreement;
- (i) the Second Supplemental 2019 Huangyan Water Supply Framework Agreement;
- (j) the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement; and
- (k) the 2021 Huangyan Water Supply Framework Agreement.

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Taizhou Water Group Co., Ltd.* 台州市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: 1542)

NOTICE OF EGM

NOTICE IS HEREBY GIVEN that the 2021 Second Extraordinary General Meeting (the “EGM”) of Taizhou Water Group Co., Ltd.* (台州市水務集團股份有限公司) (the “Company”) will be held at Conference Room, Taizhou Water Group Co., Ltd., No. 308 Yin Quan Road, Xicheng Street, Huangyan District, Taizhou, Zhejiang Province, the PRC at 3:00 p.m. on Thursday, 28 October 2021 to consider and, if thought fit, to pass, with or without modifications, the following resolutions of the Company.

ORDINARY RESOLUTIONS

1. “THAT:
 - (a) the equity transfer agreement dated 1 September 2021 (the “**Huangyan Equity Transfer Agreement**”) (a copy of which is tabled at the meeting and marked “A” and initialled by the chairman of the meeting for identification purpose) entered into between the Company, Taizhou Huangyan Water Conservancy Development Group Co., Ltd.* (台州市黃岩水利發展集團有限公司) and Taizhou Huangyan Urban and Rural Water Supply Co., Ltd.* (台州市黃岩城鄉自來水有限公司) (“**Huangyan Water Supply**”) in relation to, among other matters, the acquisition of 45% of the equity interest in Huangyan Water Supply by the Company and the transactions contemplated thereunder, be and are hereby confirmed and approved; and
 - (b) any one or more director(s) of the Company be and is/are hereby authorised to do all such acts and things, to sign and execute all such documents (and to affix the common seal of the Company thereon, if necessary) as he/she/they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Huangyan Equity Transfer Agreement and the transactions contemplated thereunder, and to make and agree to make such variations of the terms of the Huangyan Equity Transfer Agreement as he/she/they may in his/her/their discretion consider to be appropriate, necessary or desirable and in the interests of the Company and its shareholders as a whole.”;

* For identification purposes only

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2. “THAT:

- (a) the agreement dated 1 September 2021 (the “**Second Supplemental 2019 Huangyan Water Supply Framework Agreement**”) (a copy of which is tabled at the meeting and marked “B” and initialled by the chairman of the meeting for identification purpose) entered into between the Company and Huangyan Water Supply in relation to, among others, the provision of raw water supply services by the Company to Huangyan Water Supply and the transactions contemplated thereunder, be and are hereby confirmed and approved;
- (b) the proposed revised annual cap amount for the year ending 31 December 2021 under the Second Supplemental 2019 Huangyan Water Supply Framework Agreement be and is hereby approved; and
- (c) any one or more director(s) of the Company be and is/are hereby authorised to do all such acts and things, to sign and execute all such documents (and to affix the common seal of the Company thereon, if necessary) as he/she/they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Second Supplemental 2019 Huangyan Water Supply Framework Agreement and the transactions contemplated thereunder, and to make and agree to make such variations of the terms of the Second Supplemental 2019 Huangyan Water Supply Framework Agreement as he/she/they may in his/her/their discretion consider to be appropriate, necessary or desirable and in the interests of the Company and its shareholders as a whole.”;

3. “THAT:

- (a) the agreement dated 1 September 2021 (the “**Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement**”) (a copy of which is tabled at the meeting and marked “C” and initialled by the chairman of the meeting for identification purpose) entered into between the Company and Taizhou Luqiao Water Supply Co., Ltd.* (台州市路橋自來水有限公司) (“**Taizhou Luqiao Water Supply**”) in relation to, among others, the provision of raw water supply services by the Company to Taizhou Luqiao Water Supply and the transactions contemplated thereunder, be and are hereby confirmed and approved;
- (b) the proposed revised annual cap amount for the year ending 31 December 2021 under the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement be and is hereby approved; and
- (c) any one or more director(s) of the Company be and is/are hereby authorised to do all such acts and things, to sign and execute all such documents (and to affix the common seal of the Company thereon, if

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necessary) as he/she/they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement and the transactions contemplated thereunder, and to make and agree to make such variations of the terms of the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement as he/she/they may in his/her/their discretion consider to be appropriate, necessary or desirable and in the interests of the Company and its shareholders as a whole.”;

4. **“THAT:**
 - (a) the agreement dated 1 September 2021 (the **“2021 Huangyan Water Supply Framework Agreement”**) (a copy of which is tabled at the meeting and marked “D” and initialled by the chairman of the meeting for identification purpose) entered into between the Company and Huangyan Water Supply in relation to, among others, the provision of raw water supply services by the Company to Huangyan Water Supply and the transactions contemplated thereunder, be and are hereby confirmed and approved; and
 - (b) any one or more director(s) of the Company be and is/are hereby authorised to do all such acts and things, to sign and execute all such documents (and to affix the common seal of the Company thereon, if necessary) as he/she/they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the 2021 Huangyan Water Supply Framework Agreement and the transactions contemplated thereunder, and to make and agree to make such variations of the terms of the 2021 Huangyan Water Supply Framework Agreement as he/she/they may in his/her/their discretion consider to be appropriate, necessary or desirable and in the interests of the Company and its shareholders as a whole.”;
5. To consider and approve the appointment of Mr. Lin Yang as a non-executive director of the Company;
6. To consider and approve the appointment of Mr. Huang Chun as an independent non-executive director of the Company and authorise the Board to determine his remuneration;
7. To consider and approve the injection of capital to Taizhou Binhai Water Co., Ltd.* (台州市濱海水務有限公司);
8. To consider and approve the provision of guarantee by the Company to Taizhou City Water Co., Ltd.* (台州城市水務有限公司) for an amount up to RMB675 million;

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9. To consider and approve the proposed application by the Company to the Bank of Ningbo Co., Ltd., Taizhou Branch for a credit facility not exceeding RMB300 million, and approve any executive director of the Company to handle all relevant matters in relation to the banking credit facility;
10. To consider and approve the proposed application by the Company to SPDB Financial Leasing Co., Ltd. for a credit facility not exceeding RMB150 million, and approve any executive director of the Company to handle all relevant matters in relation to the credit facility; and
11. To authorise the Board and the management of the Company, generally and unconditionally, to approve and determine the applications of working capital facilities to banks and handle all the matters in relation thereto, subject to the conditions that: (i) the single working capital facility shall not exceed RMB500 million; and (ii) at the time of the relevant application, the aggregate amount of working capital facilities taken out by the Group in that financial year shall not exceed RMB2 billion.

SPECIAL RESOLUTION

12. To consider and approve the proposed issue of bonds denominated in foreign currencies in an aggregate principal amount of not more than US\$200 million (or equivalent foreign currency), the details of which are set out in the circular of the Company dated 30 September 2021 and relevant authorisation.

By order of the Board
Taizhou Water Group Co., Ltd.*
YANG Jun
Chairman

Taizhou, the PRC
30 September 2021

Notes:

1. For details of the resolutions to be approved in this EGM, please refer to the circular.
2. The register of members of the Company will be closed from Monday, 25 October 2021 to Thursday, 28 October 2021 (both days inclusive), during which period no transfer of shares of the Company (the “**Shares**”) will be effected. In order to be qualified to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the H Share registrar of the Company, namely Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Friday, 22 October 2021.
3. Shareholders of the Company (the “**Shareholders**”) who are entitled to attend and vote at the EGM may appoint one or more proxies to attend and, in the event of a poll, vote on their behalf. A proxy needs not be a Shareholder.

NOTICE OF EGM

4. Shareholder shall entrust a proxy by a written form of proxy which shall be signed by such Shareholder or an agent entrusted by such Shareholder in writing under the hand of a Shareholder in writing. If the Shareholder is a legal person, the power of attorney shall be affixed with its official seal or signed by its director or an agent or other personnel officially entrusted thereby. Such power of attorney shall specify the number of Shares held by the Shareholder represented by each proxy.
5. In order to be valid, the form of proxy must be deposited, for the holders of H Shares, to the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or, for the holders of Domestic Shares, to the Company's registered office in the PRC, not less than 24 hours prior to the commencement of the EGM (i.e. before 3:00 p.m. on Wednesday, 27 October 2021). If the proxy form is signed by a person authorised by the Shareholder, the power of attorney or other authorisation documents shall be notarised. Completion and return of the proxy form will not preclude Shareholders from attending and voting in person at the EGM or any adjourned meetings should you so wish.
6. Shareholders shall show their identity papers when attending the EGM. A proxy, who is on behalf of a Shareholder, shall show his/her identity paper, proxy form and a copy of identity paper of the Shareholder.
7. Corporate Shareholder shall appoint its legal representative or authorised representative to attend the EGM. Such person shall show his/her identity paper and a copy of corporate's business certificate affixed with its official seal. If corporate Shareholders appoint authorised representative to attend the EGM, the authorised representative shall show his/her identity paper, the original document of power of attorney issued by the such legal person and a copy of corporate's business certificate affixed with its official seal (except for a clearing house or its proxy).
8. Shareholders who intend to attend the EGM should complete and return the reply slip in writing by hand or by post to the H Share registrar of the Company, namely Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for holders of H Shares) or the registered office of the Company in the PRC (for holders of Domestic Shares) before Tuesday, 12 October 2021.
9. The EGM is expected to take less than half a day. Shareholders who attend the EGM shall be responsible for their own travel and accommodation expenses.
10. The name and address of the Company's H Share registrar in Hong Kong is as follows:

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong
11. The registered office of the Company in the PRC is as follows:

No. 308 Yin Quan Road
Xicheng Street
Huangyan District
Taizhou, Zhejiang Province
The PRC
12. If more than one of joint Shareholders attend the meeting, whether in person or by proxy, the vote of the senior joint Shareholder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint Shareholders and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint shareholding.