

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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of 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)

**(I) REVISION OF ANNUAL CAPS
FOR CONTINUING CONNECTED TRANSACTIONS;
(II) AMENDMENTS TO ARTICLES OF ASSOCIATION;
(III) PROPOSED INJECTION OF CAPITAL TO SUBSIDIARY;
(IV) PROPOSED ADOPTION OF THE REVISED RULES OF
MANAGEMENT OF CONNECTED TRANSACTIONS;
AND
(V) NOTICE OF THE 2020 FIRST EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser
to the Independent Board Committee and the Independent Shareholders
(in respect of the proposed revision of annual caps for continuing connected transactions)**

ADVENT
宏智融資

A letter from the Board is set out on pages 6 to 20 of this circular. A letter from the Independent Board Committee containing its recommendations on the proposed revision of annual caps in respect of the continuing connected transactions under the Supplemental CCT Agreements is set out on pages 21 to 22 of this circular. A letter from Advent Corporate Finance Limited, the independent financial adviser over the proposed revision of annual caps in respect of the continuing connected transactions under the Supplemental CCT Agreements, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 23 to 35 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 2:30 p.m. on Thursday, 24 September 2020 is set out on pages EGM-1 to EGM-3 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 2:30 p.m. on Wednesday, 23 September 2020) 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.

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	6
1. Introduction	7
2. Revision of annual caps for continuing connected transactions	7
3. Amendments to the Articles of Association	16
4. Proposed injection of capital to subsidiary	17
5. Proposed adoption of the revised rules of management of connected transactions	18
6. EGM	18
7. Voting by poll	19
8. Recommendation	20
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	21
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	23
APPENDIX I – GENERAL INFORMATION	I-1
APPENDIX II – AMENDMENTS TO THE ARTICLES OF ASSOCIATION	II-1
APPENDIX III – THE REVISED RULES OF MANAGEMENT OF CONNECTED TRANSACTIONS	III-1
NOTICE OF EGM	EGM-1

DEFINITIONS

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

“Articles Amendments”	the amendments proposed to be made to the Articles of Association of which the details are set out in Appendix I to this circular
“Articles of Association”	the articles of association of the Company, as amended from time to time
“Board”	the board of directors of the Company
“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
“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
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“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)
“Company Law”	Company Law of the People’s Republic of China (中華人民共和國公司法), as promulgated by the Standing Committee of the Eighth National People’s Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
“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 2020 first 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 2:30 p.m. on Thursday, 24 September 2020 or any adjournment thereof

DEFINITIONS

“Existing CCT Agreements”	collectively, the Zhejiang Huangyan Water Supply Framework Agreement and the Taizhou Luqiao Municipal Water Supply Framework Agreement
“Group”, “we” or “our”	the Company and its subsidiaries
“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
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huangyan SCOG”	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 on 2 November 2011
“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 the continuing connected transactions under the Supplemental CCT Agreements and the Revised Annual Caps contemplated thereunder
“Independent Financial Adviser”	Advent Corporate Finance Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the Supplemental CCT Agreements and the Revised Annual Caps contemplated thereunder
“Independent Shareholders”	Shareholders who do not have a material interest in the Supplemental CCT Agreements

DEFINITIONS

“Latest Practicable Date”	27 August 2020, 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-3 of this circular
“Original Annual Caps”	collectively, the Original Zhejiang Huangyan Annual Cap and the Original Taizhou Luqiao Annual Cap
“Original Taizhou Luqiao Annual Cap”	the original annual cap amount for the year ending 31 December 2020 for the transactions contemplated under the Taizhou Luqiao Municipal Water Supply Framework Agreement
“Original Zhejiang Huangyan Annual Cap”	the original annual cap amount for the year ending 31 December 2020 for the transactions contemplated under the Zhejiang Huangyan Water Supply Framework Agreement
“Prospectus”	the prospectus of the Company dated 17 December 2019
“Revised Annual Caps”	collectively, the Revised Zhejiang Huangyan Annual Cap and the Revised Taizhou Luqiao Annual Cap
“Revised Taizhou Luqiao Annual Cap”	the proposed annual cap amount for the year ending 31 December 2020 for the transactions contemplated under the Supplemental Taizhou Luqiao Municipal Water Supply Framework Agreement
“Revised Zhejiang Huangyan Annual Cap”	the proposed annual cap amount for the year ending 31 December 2020 for the transactions contemplated under the Supplemental Zhejiang Huangyan Water Supply Framework Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“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)”	member(s) of the supervisory committee of the Company
“Supplemental CCT Agreements”	collectively, the Supplemental Taizhou Luqiao Municipal Water Supply Framework Agreement and the Supplemental Zhejiang Huangyan Water Supply Framework Agreement
“Supplemental Taizhou Luqiao Municipal Water Supply Framework Agreement”	the agreement dated 13 August 2020 entered into between Taizhou City Water and Taizhou Luqiao Water Supply to supplement the Taizhou Luqiao Municipal Water Supply Framework Agreement
“Supplemental Zhejiang Huangyan Water Supply Framework Agreement”	the agreement dated 13 August 2020 entered into between the Company and Zhejiang Huangyan Water Supply to supplement the Zhejiang Huangyan 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 on 30 September 2003 and a 82%-owned subsidiary of the Company
“Taizhou DRC”	Taizhou Development and Reform Commission (台州市發展和改革委員會)
“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 on 7 March 2000
“Taizhou Luqiao Municipal Water Supply Framework Agreement”	the agreement entered into between Taizhou City Water and Taizhou Luqiao Water Supply dated 27 October 2019 in relation to the provision of municipal water supply services by Taizhou City Water to Taizhou Luqiao Water Supply
“Zhejiang Huangyan Water Supply”	Zhejiang Huangyan Water Supply Co., Ltd.* (浙江黃岩自來水公司), a limited liability company established in the PRC on 1 January 1989

DEFINITIONS

“Zhejiang Huangyan Water
Supply Framework
Agreement”

the agreement entered into between the Company and Zhejiang Huangyan Water Supply dated 27 October 2019 in relation to the provision of raw water supply services by the Company to Zhejiang Huangyan Water Supply

“%”

per cent



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

*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

Independent non-executive Directors:

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

3 September 2020

To the Shareholders

Dear Sir or Madam,

**(I) REVISION OF ANNUAL CAPS FOR
CONTINUING CONNECTED TRANSACTIONS;
(II) AMENDMENTS TO ARTICLES OF ASSOCIATION;
(III) PROPOSED INJECTION OF CAPITAL TO SUBSIDIARY;
(IV) PROPOSED ADOPTION OF THE REVISED RULES OF
MANAGEMENT OF CONNECTED TRANSACTIONS;
AND
(V) NOTICE OF THE 2020 FIRST EXTRAORDINARY GENERAL MEETING**

LETTER FROM THE BOARD

1. INTRODUCTION

Reference is made to (i) the announcement of the Company in relation to the Articles Amendments dated 7 August 2020; and (ii) the announcement of the Company in relation to the revision of annual caps for continuing connected transactions dated 13 August 2020.

The purpose of this circular is to give you the notice of the EGM and to provide you with information regarding certain 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. REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company in relation to the revision of annual caps for continuing connected transactions dated 13 August 2020 and the section headed “Connected Transactions” in the Prospectus in relation to, among other things, (i) the Zhejiang Huangyan Water Supply Framework Agreement; and (ii) the Taizhou Luqiao Municipal Water Supply Framework Agreement.

THE EXISTING CCT AGREEMENTS

(A) Zhejiang Huangyan Water Supply Framework Agreement

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

Date	27 October 2019
Parties	(1) The Company (2) Zhejiang Huangyan Water Supply
Term	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).
Subject matter	The Company agreed to provide raw water supply services to Zhejiang Huangyan Water Supply.
Pricing guideline	The prices of the sales of raw water supply services provided by the Company to Zhejiang Huangyan Water Supply shall be determined on the basis of (i) the water prices as approved by Taizhou DRC, which is at RMB0.89 per cubic metre as at the Latest Practicable Date; and (ii) the price adjustment as fixed and promulgated by Taizhou DRC.

LETTER FROM THE BOARD

The Zhejiang Huangyan Water Supply Framework Agreement is subject to, among other things, the annual cap amounts for each of the financial years ended/ending 31 December 2019, 2020 and 2021 not exceeding the following:

	Year ended/ending 31 December		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
Amount of raw water supply services provided by the Company to Zhejiang Huangyan Water Supply	38,941	41,270	41,829

For the three years ended 31 December 2017, 2018 and 2019, the total transaction amounts of raw water supply services provided by the Company to Zhejiang Huangyan Water Supply were approximately RMB34.6 million, RMB40.5 million and RMB38.7 million, respectively.

(B) Taizhou Luqiao Municipal Water Supply Framework Agreement

The principal terms of the Taizhou Luqiao Municipal Water Supply Framework Agreement are set out below:

Date	27 October 2019
Parties	(1) Taizhou City Water (2) Taizhou Luqiao Water Supply
Term	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).
Subject matter	Taizhou City Water agreed to provide municipal water supply services to Taizhou Luqiao Water Supply.
Pricing guideline	The prices of the sales of municipal water supply services provided by Taizhou City Water to Taizhou Luqiao Water Supply shall be determined on the basis of (i) the water prices as approved by Taizhou DRC, which is at RMB2.47 per cubic metre as at the Latest Practicable Date; and (ii) the price adjustment as fixed and promulgated by Taizhou DRC.

LETTER FROM THE BOARD

The Taizhou Luqiao Municipal Water Supply Framework Agreement is subject to, among other things, the annual cap amounts for each of the financial years ended/ending 31 December 2019, 2020 and 2021 not exceeding the following:

	Year ended/ending 31 December		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
Amount of municipal water supply services provided by Taizhou City Water to Taizhou Luqiao Water Supply	64,707	67,705	68,581

For the three years ended 31 December 2017, 2018 and 2019, the total transaction amounts of municipal water supply services provided by Taizhou City Water to Taizhou Luqiao Water Supply were approximately RMB61.9 million, RMB66.4 million and RMB64.3 million, respectively.

In respect of the continuing connected transactions with Taizhou Luqiao Water Supply, the Company has also entered into a raw water supply framework agreement with Taizhou Luqiao Water Supply on 27 October 2019 (the “**Taizhou Luqiao Raw Water Supply Framework Agreement**”), pursuant to which the Company agreed to provide Taizhou Luqiao Water Supply with raw water supply services. The annual caps of the transactions under the Taizhou Luqiao Raw Water Supply Framework Agreement for the three years ended/ending 31 December 2019, 2020 and 2021 are RMB31,184,040, RMB32,088,561 and RMB32,423,715, respectively. For further details of the Taizhou Luqiao Raw Water Supply Framework Agreement, please refer to the section headed “Connected Transactions” of the Prospectus.

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

REVISION OF ANNUAL CAPS UNDER THE SUPPLEMENTAL CCT AGREEMENTS

During a recent review by the Board on the existing continuing connected transactions of the Group, the Directors anticipated that the transactions pursuant to the Zhejiang Huangyan Water Supply Framework Agreement and the Taizhou Luqiao Municipal 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

LETTER FROM THE BOARD

for the financial year ending 31 December 2020. The Company proposes to revise the Original Annual Caps as follows:

(A) Zhejiang Huangyan Water Supply Framework Agreement

Transaction value for the six months ended 30 June 2020

Based on the Company's unaudited financial information as at 30 June 2020, the total transaction amount of raw water supply services provided by the Company to Zhejiang Huangyan Water Supply under the Zhejiang Huangyan Water Supply Framework Agreement for the six months ended 30 June 2020 amounted to approximately RMB20,644,000.

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 Zhejiang Huangyan Water Supply Framework Agreement for the year ending 31 December 2020 has not been exceeded up to the date of this circular.

The Revised Zhejiang Huangyan Annual Cap

	For the year ending 31 December 2020 (RMB'000)
Original Zhejiang Huangyan Annual Cap	41,270
Revised Zhejiang Huangyan Annual Cap	45,720

Basis for the Revised Zhejiang Huangyan Annual Cap

The Revised Zhejiang Huangyan Annual Cap for the transactions contemplated under the Supplemental Zhejiang 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 Zhejiang Huangyan Water Supply for the six months ended 30 June 2020 recorded in the unaudited financial information of the Company which accounted for approximately 50.0% of the Original Zhejiang Huangyan Annual Cap. Such increase in water consumption during the six months ended 30 June 2020 was due to the decrease in rainfall in Taizhou as reflected in the rainfall statistics of Taizhou Water Resources Bureau* (台州市水利局) as compared to the corresponding period of 2019.

LETTER FROM THE BOARD

- (2) The estimated increase in demand of raw water supply services from Zhejiang Huangyan Water Supply for the year ending 31 December 2020 due to expected increase in residential and non-residential water consumption. The recent outbreak of novel coronavirus pandemic (“**COVID-19 outbreak**”) has heightened people’s health and hygiene awareness, leading to a higher frequency of cleaning in both household and commercial settings. Such change in the cleaning habits of the general public in Taizhou has resulted in increase in water usage and consumption.

Despite the decline in demand from industrial and commercial users due to the temporary suspension of work and production caused by COVID-19 outbreak in the first half of 2020, with the gradual ease of COVID-19 outbreak, industries are expected to resume normal production levels in the second half of 2020. In particular, with the support of favourable government initiatives, it is expected that the local government would enhance the scale of governmental investments and accelerate the development in large-scale public infrastructure. The Directors expect that the more dynamic macroeconomic environment in Zhejiang Province, including Taizhou, would further drive up the water consumption of non-residential users.

The Supplemental Zhejiang Huangyan Water Supply Framework Agreement

On 13 August 2020, the Company and Zhejiang Huangyan Water Supply entered into the Supplemental Zhejiang 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 2020 from RMB41,270,133 to RMB45,720,133. Save for the Revised Zhejiang Huangyan Annual Cap, all other terms and conditions of the Zhejiang Huangyan Water Supply Framework Agreement remain unchanged.

(B) Taizhou Luqiao Municipal Water Supply Framework Agreement

Transaction value for the six months ended 30 June 2020

Based on the Company’s unaudited financial information as at 30 June 2020, the total transaction amount of municipal water supply services provided by Taizhou City Water to Taizhou Luqiao Water Supply under the Taizhou Luqiao Municipal Water Supply Framework Agreement for the six months ended 30 June 2020 amounted to approximately RMB33,128,000.

The Directors confirm that, based on the Company’s unaudited financial information, the annual cap for the provision of municipal water supply services under the Taizhou Luqiao Municipal Water Supply Framework Agreement for the year ending 31 December 2020 has not been exceeded up to the date of this circular.

LETTER FROM THE BOARD

The Revised Taizhou Luqiao Annual Cap

**For the year
ending
31 December
2020
(RMB'000)**

Original Taizhou Luqiao Annual Cap	67,705
Revised Taizhou Luqiao Annual Cap	71,315

Basis for the Revised Taizhou Luqiao Annual Cap

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

- (1) The historical transaction amount of municipal water supply services provided by Taizhou City Water to Taizhou Luqiao Water Supply for the six months ended 30 June 2020 recorded in the unaudited financial information of the Company which accounted for approximately 48.9% of the Original Taizhou Luqiao Annual Cap. Such increase in water consumption during the six months ended 30 June 2020 was due to the decrease in rainfall in Taizhou as reflected in the rainfall statistics of Taizhou Water Resources Bureau as compared to the corresponding period of 2019.
- (2) The estimated increase in demand of municipal water supply services from Taizhou Luqiao Water Supply for the year ending 31 December 2020 due to expected increase in residential and non-residential water consumption. The recent COVID-19 outbreak has heightened people's health and hygiene awareness, leading to a higher frequency of cleaning in both household and commercial settings. Such change in the cleaning habits of the general public in Taizhou has resulted in increase in water usage and consumption.

Despite the decline in demand from industrial and commercial users due to the temporary suspension of work and production caused by COVID-19 outbreak in the first half of 2020, with the gradual ease of COVID-19 outbreak, industries are expected to resume normal production levels in the second half of 2020. In particular, with the support of favourable government initiatives, it is expected that the local government would enhance the scale of governmental investments and accelerate the development in large-scale public infrastructure. The Directors expect that the more dynamic macroeconomic environment in Zhejiang Province, including Taizhou, would further drive up the water consumption of non-residential users.

LETTER FROM THE BOARD

The Supplemental Taizhou Luqiao Municipal Water Supply Framework Agreement

On 13 August 2020, Taizhou City Water and Taizhou Luqiao Water Supply entered into the Supplemental Taizhou Luqiao Municipal Water Supply Framework Agreement, pursuant to which the parties agreed to revise the annual cap for the provision of municipal water supply services for the year ending 31 December 2020 from RMB67,705,448 to RMB71,315,448. Save for the Revised Taizhou Luqiao Annual Cap, all other terms and conditions of the Taizhou Luqiao Water Supply Framework Agreement remain unchanged.

REASONS FOR AND BENEFITS OF REVISING THE ORIGINAL ANNUAL CAPS

In view of increased demand in raw water supply services and municipal water supply services from Zhejiang Huangyan Water Supply and Taizhou Luqiao Water Supply, respectively, the Board anticipates that the transactions with Zhejiang Huangyan Water Supply and Taizhou Luqiao Water Supply pursuant to the Existing CCT Agreements will exceed the original sales projection and 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 2020. Accordingly, the Company proposes to revise the aforementioned annual caps and enter into the Supplemental CCT Agreements to maintain a stable supply of raw water and municipal water to Zhejiang Huangyan Water Supply and Taizhou Luqiao Water Supply, respectively, 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 the Independent Financial Adviser) consider that the Revised Annual Caps under the Supplemental 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 our Group and each of Zhejiang 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.

INTERNAL CONTROL POLICIES AND PROCEDURES

In order to ensure that the pricing mechanism and terms of the Supplemental CCT Agreements 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 Zhejiang 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.

LETTER FROM THE BOARD

- (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 CCT Agreements such as water price adjustment as fixed and promulgated by the relevant government authorities.
- (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 CCT Agreements, for each financial year in accordance with Rule 14A.56 of the Listing Rules.
- (5) 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 CCT Agreements, throughout the preceding financial year, and give confirmation in accordance with Rules 14A.55 and 14A.71 of the Listing Rules.

In addition, the Company has adopted the following internal control measures to ensure that the continuing connected transactions are conducted on normal commercial terms:

- (1) the connected party(ies) with material interests in the connected transactions shall abstain from voting in respect of the resolution at the shareholders' meeting.
- (2) 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.
- (3) 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.

INFORMATION OF THE PARTIES TO THE SUPPLEMENTAL CCT AGREEMENTS

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.

LETTER FROM THE BOARD

Taizhou City Water

Taizhou City Water is principally engaged in the operation and management of water treatment projects of the Taizhou Second Phase Water Supply Project (台州二期供水工程) of the Group and possesses the health permit, and is a 82%-owned subsidiary of the Company.

Zhejiang Huangyan Water Supply

Zhejiang Huangyan Water Supply principally engages in the business of centralised water supply services in Huangyan District of Taizhou. As at the Latest Practicable Date, Zhejiang 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).

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.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, (i) Zhejiang Huangyan Water Supply is an indirect wholly-owned subsidiary of Huangyan SCOG, a substantial shareholder of the Company; and (ii) Taizhou Luqiao Water Supply is an indirect wholly-owned subsidiary of 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 substantial shareholder of the Company. Accordingly, each of Zhejiang Huangyan Water Supply and Taizhou Luqiao Water Supply is a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules.

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

As Ms. Fang Ya, a non-executive Director, is a director nominated by Zhejiang Huangyan Financial Development Company* (浙江黃岩財務開發公司), the holding company of Zhejiang Huangyan Water Supply, she is deemed to have a material interest in the Supplemental Zhejiang Huangyan Water Supply Framework Agreement and the transactions contemplated thereunder, including the Revised Zhejiang Huangyan Annual Cap. Ms. Fang Ya has abstained from voting on the relevant Board resolutions approving the Supplemental Zhejiang Huangyan Water Supply Framework Agreement.

LETTER FROM THE BOARD

As Ms. Huang Yuyan, a non-executive Director, is the deputy general manager of and a Director nominated by Taizhou Luqiao Public Assets Investment Management Co., Ltd., the holding company of Taizhou Luqiao Water Supply, she is deemed to have a material interest in the Supplemental Taizhou Luqiao Municipal Water Supply Framework Agreement and the transactions contemplated thereunder, including the Revised Taizhou Luqiao Annual Cap. Ms. Huang Yuyan has abstained from voting on the relevant Board resolutions approving the Supplemental Taizhou Luqiao Municipal Water Supply Framework Agreement.

Save as disclosed above, none of the Directors has a material interest in the Supplemental CCT Agreements and the transactions contemplated thereunder, including the Revised Annual Caps.

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 CCT Agreements and the Revised Annual Caps contemplated thereunder. Advent Corporate Finance Limited 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 21 to 22 of this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM; and (ii) the letter from the Independent Financial Adviser as set out on pages 23 to 35 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental CCT Agreements and the Revised Annual Caps.

Your attention is also drawn to the additional information set out in Appendix I to this circular.

3. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Reference is made to the announcement of the Company dated 7 August 2020 in relation to the Articles Amendments.

In order to reflect the change of name and relevant requirements of the local administration of industry and commerce and having considered the actual needs of the Company, the Board proposed to make the Articles Amendments to the Articles of Association. Details of the Articles Amendments are set out in Appendix II to this circular.

The Articles Amendments are subject to approval by the Shareholders by way of special resolution at the EGM, and the obtaining of any required approval or endorsement from, or registration with, the relevant regulatory authorities. Save for the Articles

LETTER FROM THE BOARD

Amendments, other sections and articles of the Articles of Association remain unchanged. Upon the approval from the Shareholders of the relevant special resolutions at the EGM, the Articles Amendments will be filed with the relevant authorities. The Articles Amendments will take effect on the date of approval at the EGM.

Advice has been obtained from independent legal advisers that the Articles Amendments comply with the laws of the PRC and the applicable Listing Rules requirements. The Company also confirms that there is nothing unusual in the Articles Amendments from the perspective of a PRC company listed on the Stock Exchange.

4. 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 is RMB100 million and it is owned as to 51% and 49% by the Company and Taizhou City Water, a subsidiary of the Company, respectively. Binhai Water is thus a wholly-owned subsidiary of the Company.

In light of the expected capital requirement for the development of water diversion projects, the Company plans to increase the share capital of Binhai Water from RMB100 million to RMB160 million. The injection of capital will be contributed by the Company and Taizhou City Water in proportion to their existing shareholding in Binhai Water. Binhai Water will remain as a wholly-owned subsidiary of the Company immediately after the completion of the proposed injection of capital.

The amount of capital injection and the shareholding structure of Binhai Water 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 after the proposed capital injection
The Company	RMB51 million	51%	RMB30.6 million	RMB81.6 million	51%
Taizhou City Water	RMB49 million	49%	RMB29.4 million	RMB78.4 million	49%
Total	<u>RMB100 million</u>	<u>100%</u>	<u>RMB60 million</u>	<u>RMB160 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.

LETTER FROM THE BOARD

5. PROPOSED ADOPTION OF THE REVISED RULES OF MANAGEMENT OF CONNECTED TRANSACTIONS

In order to enhance the Company's management and internal control of its connected transactions, the Board has resolved to amend the current rules of management of connected transactions and adopt the revised rules of management of connected transactions. Details of the revised rules of management of connected transactions are set out in Appendix III to this circular.

The revised rules of management of connected transactions are subject to approval by the Shareholders by way of ordinary resolution at the EGM, and will take effect on the date of approval at the EGM.

6. EGM

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

The Supplemental CCT Agreements and the Revised Annual Caps thereunder are subject to the approval of the Independent Shareholders by way of ordinary resolution at the EGM. Any Shareholder with a material interest in the Supplemental CCT Agreements, the transactions contemplated thereunder and the Revised Annual Caps and his/her/its associate(s) is (are) required to abstain from voting on the ordinary resolutions approving the same.

The parties set out below, who have a material interest in the Supplemental CCT Agreements, are required to abstain from voting on the ordinary resolutions approving the Supplemental CCT Agreements, the transactions contemplated thereunder and the Revised Annual Caps at the EGM under the Listing Rules:

- (a) As at the Latest Practicable Date, Zhejiang Huangyan Financial Development Company (which holds 100% equity interest of Zhejiang Huangyan Water Supply) directly holds 26,679,541 Domestic Shares, representing approximately 13.34% of the total number of Shares in issue, will abstain from voting on the ordinary resolution to approve the Supplemental Zhejiang Huangyan Water Supply Framework Agreement, the transactions contemplated thereunder and the Revised Zhejiang Huangyan Annual Cap at the EGM; and
- (b) As at the Latest Practicable Date, Taizhou Luqiao Public Assets Investment Management Co., Ltd. (which holds 100% equity interest of Taizhou Luqiao Water Supply) directly holds 17,613,358 Domestic Shares, representing approximately 8.80% of the total number of Shares in issue, will abstain from voting on the ordinary resolution to approve the Supplemental Taizhou Luqiao Municipal Water Supply Water Supply Framework Agreement, the transactions contemplated thereunder and the Revised Taizhou Luqiao Annual Cap at the EGM.

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, except as disclosed above, there are no other Shareholders who have a material interest in the Supplemental CCT Agreements. As such, no other Shareholders will be required to abstain from voting on the ordinary resolutions approving the Supplemental CCT Agreements, the transactions contemplated thereunder and the Revised Annual Caps.

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

The proposed resolutions in relation to (i) the proposed injection of capital to subsidiary; and (ii) the proposed adoption of the revised rules of management of connected transactions are subject to approval by the Shareholders by way of ordinary resolutions at the EGM, which all Shareholders are entitled to vote on.

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, 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 2:30 p.m. on Wednesday, 23 September 2020) 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 Thursday, 3 September 2020.

7. 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.

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.

LETTER FROM THE BOARD

8. RECOMMENDATION

Having considered the principal factors and reasons described above, the Directors (including the independent non-executive Directors whose view is based on advice from the Independent Financial Adviser) are of the view that the the terms of the Supplemental CCT Agreements and the Revised Annual Caps contemplated thereunder are fair and reasonable, and such continuing connected transactions 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 Supplemental CCT Agreements, the transactions contemplated thereunder and the Revised Annual Caps.

The Independent Board Committee, having taken into account, among other things, the advice of the Independent Financial Adviser, is of the view that the terms of the Supplemental CCT Agreements and the Revised Annual Caps contemplated thereunder are fair and reasonable, and such continuing connected 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, 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 Supplemental CCT Agreements, the transactions contemplated thereunder and the Revised Annual Caps.

The Directors also consider that the ordinary resolutions in relation to (i) the proposed injection of capital to subsidiary; and (ii) the proposed adoption of the revised rules of management of connected transactions; and the special resolution in relation to the Articles Amendments are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that the Shareholders to vote in favour of the aforementioned resolutions to be proposed at the EGM.

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 respect of the Supplemental CCT Agreements and the Revised Annual Caps, 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)

To the Independent Shareholders

Dear Sir or Madam

REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 3 September 2020 (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, the terms of the continuing connected transaction contemplated under the Supplemental CCT Agreements and the Revised Annual Caps 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 its Shareholders as a whole, and how the Independent Shareholders should vote at the EGM, after taking into account the recommendation of the Independent Financial Adviser.

Advent Corporate Finance Limited has been appointed by the Board as the Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders in connection with the Supplemental CCT Agreements and the continuing connected transaction contemplated thereunder (including the Revised Annual Caps). Details of the advice from the Independent Financial Adviser, together with the reasons for its opinion, the key assumptions made and the factors taken into consideration in forming its opinion, are set out in its letter on pages 23 to 35 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 6 to 20 of the Circular and the general information set out in Appendix I of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms and conditions of the Supplemental CCT Agreements as well as the Revised Annual Caps for the continuing connected transactions contemplated thereunder, the interests of the Independent Shareholders and the advice of the Independent Financial Adviser, we are of the opinion that the terms of the continuing connected transactions contemplated under the Supplemental CCT Agreements and the Revised Annual Caps are fair and reasonable, and such continuing connected 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 so as to approve the Supplemental CCT Agreements as well as the Revised Annual Caps for the continuing connected transaction 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 THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Advent Corporate Finance Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Zhejiang Huangyan Water Supply Framework Agreement and the Supplemental Taizhou Luqiao Municipal Water Supply Framework Agreement and the transactions contemplated thereunder, including the Revised Annual Caps.



3 September 2020

To the Independent Board Committee and the Independent Shareholders

Dear Sirs and Madams,

REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Zhejiang Huangyan Water Supply Framework Agreement and the Supplemental Taizhou Luqiao Municipal Water Supply Framework Agreement for the year ending 31 December 2020 and the transactions contemplated thereunder, including the Revised Annual Caps. Details of the Supplemental CCT Agreements are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company dated 3 September 2020 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise specified.

Reference is made to the existing Zhejiang Huangyan Water Supply Framework Agreement and Taizhou Luqiao Municipal Water Supply Framework Agreement, details of which are set out in the section headed “Connected Transactions” in the Prospectus and in the announcement of the Company dated 13 August 2020 in relation to the Revised Annual Caps (the “**Announcement**”). Due to the reasons set out in the section headed “2.3 The Revised Annual Caps” of this letter below, the Group considers necessary to revise the Original Annual Caps for the year ending 31 December 2020 to accommodate the increase in the demand for raw water and municipal water supply services. Therefore, on 13 August 2020, the Group entered into the Supplemental Zhejiang Huangyan Water Supply Framework Agreement with Zhejiang Huangyan Water Supply to revise the Original Zhejiang Huangyan Annual Cap from approximately RMB41.3 million to RMB45.7 million. On the same date, Taizhou City Water entered into the Supplemental Taizhou Luqiao Municipal Water Supply Framework Agreement with Taizhou Luqiao Water Supply to revise the Original Taizhou Luqiao Annual Cap from approximately RMB67.7 million to RMB71.3 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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

As at the Latest Practicable Date, (i) Zhejiang Huangyan Water Supply is an indirect wholly-owned subsidiary of Huangyan SCOG, a substantial shareholder of the Company; and (ii) Taizhou Luqiao Water Supply is an indirect wholly-owned subsidiary of 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 substantial shareholder of the Company. Accordingly, each of Zhejiang Huangyan Water Supply and Taizhou Luqiao Water Supply is a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules.

Among the Directors, (i) Ms. Fang Ya, a non-executive Director, is a director nominated by Zhejiang Huangyan Financial Development Company* (浙江黃岩財務開發公司), the holding company of Zhejiang Huangyan Water Supply; and (ii) Ms. Huang Yuyan, a non-executive Director, is the deputy general manager of and a Director nominated by Taizhou Luqiao Public Assets Investment Management Co., Ltd., the holding company of Taizhou Luqiao Water Supply and accordingly they are deemed to have material interests in the Supplemental CCT Agreements and the transactions contemplated thereunder, including the Revised Annual Caps. Ms. Fang Ya and Ms. Huang Yuyan are required to abstain from voting on the resolution in respect of the Supplemental CCT Agreements at the Board meeting. Save as disclosed above, none of the Director has a material interest in the Supplemental CCT Agreements and the transactions contemplated thereunder, including the Revised Annual Caps.

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 the Supplemental CCT Agreements and the Revised 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 the Supplemental CCT Agreements, the transactions contemplated thereunder, including the Revised Annual

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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, Advent Corporate Finance Limited, were not aware of any relationships or interests between us and (i) the Group; (ii) Zhejiang 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 the Supplemental CCT Agreements and the transactions contemplated thereunder, including the Revised Annual Caps. Save for our appointment as the Independent Financial Adviser, Advent Corporate Finance 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.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on (i) the information contained or referred to in the Prospectus, the annual report of the Group for the year ended 31 December 2019 (the “**2019 Annual Results**”), the Circular, the Announcement, the Existing CCT Agreements, the Supplemental CCT Agreements, the water supply agreements with Zhejiang Huangyan Water Supply and Taizhou Luqiao Water Supply, and certain published information of the Group; (ii) the information and facts supplied by the Group; (iii) the opinions expressed by and the representations of the Directors and management of the Group (the “Management”); and (iv) certain relevant public information, and have assumed that all such information and facts provided and any opinions and representations made to us are true, accurate and complete in all material aspects at the time they were made and as up to the date of the EGM. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the Management have been reasonably made after due and careful enquiry and are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the EGM. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the completeness, truth or accuracy of the information and facts provided. We have not, however, conducted any investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied, representations made or opinions expressed by the Company, the Directors and/or the Management. The Company will notify the Shareholders of any material changes as soon as practicable, if any.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation with regard to the terms of Supplemental CCT Agreements and the transactions contemplated thereunder, including the Revised 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.

1.2 Information on Taizhou City Water

Taizhou City Water is principally engaged in the operation and management of water treatment projects of the Taizhou Second Phase Water Supply Project (台州二期供水工程) of the Group and possesses the health permit, and is a 82%-owned subsidiary of the Company.

1.3 Information on Zhejiang Huangyan Water Supply

Zhejiang Huangyan Water Supply principally engages in the business of centralised water supply services in Huangyan District of Taizhou. As at the Latest Practicable Date, Zhejiang 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).

1.4 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 Annual Caps

2.1 Background of the Existing CCT Agreements and the Supplemental CCT Agreements and benefits for revising the Original Annual Caps

As disclosed in the Prospectus, the Group has established business cooperation with Zhejiang 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 Zhejiang 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). Pursuant to the Existing CCT Agreements, the Group agreed to provide raw water supply services and municipal water supply services to Zhejiang Huangyan Water Supply and Taizhou Luqiao Water Supply, respectively.

After considering the sales amounts for the six months ended 30 June 2020 under the Existing CCT Agreements and in view of the continuing and anticipated market demands for raw water supply services and municipal water supply services in the year ending 31 December 2020, 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 2020.

In view of the above, on 13 August 2020, the Group enters into the Supplemental CCT Agreements with Zhejiang Huangyan Water Supply and Taizhou Luqiao Water Supply to revise the Original Annual Caps to the Revised Annual Caps. Save for the revision of the Existing Annual Caps, all terms and conditions of the Existing CCT Agreements remain unchanged. The Company considers that the Revised Annual Caps will allow the Group to maintain a stable supply of raw water and municipal water to Zhejiang 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, Zhejiang Huangyan Water Supply and Taizhou Luqiao Water Supply, we concur with the Directors' view that the transactions contemplated under the Supplemental CCT Agreements, including the Revised 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 CCT Agreements*

Subject matter

For the Supplemental Zhejiang Huangyan Water Supply Framework Agreement

Pursuant to the Supplemental Zhejiang Huangyan Water Supply Framework Agreement, the Company agreed to provide raw water supply services to Zhejiang Huangyan Water Supply.

For the Supplemental Taizhou Luqiao Municipal Water Supply Framework Agreement

Pursuant to the Supplemental Taizhou Luqiao Municipal Water Supply Framework Agreement, Taizhou City Water agreed to provide municipal water supply services to Taizhou Luqiao Water Supply.

Pricing basis

The prices of both sales of raw water supply services to Zhejiang Huangyan Water Supply and sales of municipal water services to 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 CCT Agreements 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 CCT Agreements as set out above and the relevant terms under the Existing CCT Agreements. We have also obtained and reviewed samples of raw water and municipal water supply agreements signed with independent third parties (the “**Sample Contracts**”) provided by the Group. Having compared the pricing basis for the raw water and municipal water charged to Zhejiang 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 Zhejiang

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 CCT Agreements.

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

2.3 *The Revised Annual Caps*

For the Supplemental Zhejiang Huangyan Water Supply Framework Agreement

Set out below are the historical transaction amounts for the year ended 31 December 2019 and the six months ended 30 June 2020, the Original Zhejiang Huangyan Annual Cap and the Revised Zhejiang Huangyan Annual Cap for the two years ending 31 December 2020:

	For the year ended 31 December 2019 RMB'000	For the six months ended 30 June 2020 RMB'000
Historical transaction amount of raw water supply services	38,733	20,644
Original Zhejiang Huangyan Annual Cap	38,941	41,270
Utilisation rate of the Original Zhejiang Huangyan Annual Cap	99.5%	50.0%
	For the year ended 31 December 2019 RMB'000	For the year ending 31 December 2020 RMB'000
Revised Zhejiang Huangyan Annual Cap	N/A	45,720
Approximate % of increase in the Revised Zhejiang Huangyan Annual Cap as compared to the Original Zhejiang Huangyan Annual Cap	N/A	10.8%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the Supplemental Taizhou Luqiao Municipal Water Supply Framework Agreement

Set out below are the historical transaction amounts for the year ended 31 December 2019 and the six months ended 30 June 2020, the Original Taizhou Luqiao Annual Cap and the Revised Taizhou Luqiao Annual Cap for the two years ending 31 December 2020:

	For the year ended 31 December 2019 RMB'000	For the six months ended 30 June 2020 RMB'000
Historical transaction amount of		
municipal water supply services	64,319	33,128
Original Taizhou Luqiao Annual Cap	64,707	67,705
Utilisation rate of the Original Taizhou Luqiao Annual Cap	99.4%	48.9%
	For the year ended 31 December 2019 RMB'000	For the year ending 31 December 2020 RMB'000
Revised Taizhou Luqiao Annual Cap	N/A	71,315
Approximate % of increase in the Revised Taizhou Luqiao Annual Cap as compared to the Original Taizhou Luqiao Annual Cap	N/A	5.3%

The Directors confirm that the Original Annual Caps for the provision of raw water supply services and municipal water supply services for the year ending 31 December 2020 have not been exceeded up to the date of this letter.

We have obtained and reviewed the calculation of the Revised Annual Caps from the Company and discussed with the representatives of the Group regarding the basis for determining the Revised Annual Caps. We understand that the Revised Annual Caps are determined with reference to the Group's revised projection of sales to Zhejiang Huangyan Water Supply and Taizhou Luqiao Water Supply for FY2020, the basis of which has taken into consideration of (i) the unaudited historical transaction amounts with Zhejiang Huangyan Water Supply and Taizhou Luqiao Water Supply for the six months ended 30 June 2020 provided by the Group and (ii) the growing demand for raw water and municipal water due to and the favourable government initiatives in response to the outbreak of the coronavirus pandemic in the PRC in 2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 2020 provided to us, the sales amounts to Zhejiang Huangyan Water Supply and Taizhou Luqiao Water Supply for the six months ended 30 June 2020 were approximately RMB20.6 million and RMB33.1 million, respectively, which accounted for approximately 50.0% and 48.9% of their respective Original Annual Caps. Based on the rain fall statistics from the Taizhou Water Resources Bureau* (台州市水利局) provided by the Group, the representatives of the Group advised that the lower amount of rain fall in the first six months in 2020 as compared to corresponding period in 2019 had contributed the higher consumption of raw water and municipal water in the respective period in 2020. In view of the above and in addition to the growing demand for the year ending 31 December 2020 as discussed below, the Directors expect that the Existing Annual Caps will not be sufficient to meet the Group's requirements for the year ending 31 December 2020.

Growing demand for raw water and municipal 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 both raw water and municipal water services. Based on the information provided by the Group, the raw water and municipal water supplied to Zhejiang Huangyan Water Supply and Taizhou Luqiao Water Supply for the six months ended 30 June 2020 increased by approximately 5.4% and 9.7%, respectively, as compared with their consumption in the corresponding period in 2019.

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 Revised Annual Caps will ensure a stable supply of raw water and municipal water from the Group to respond to the increase in market demands.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Moreover, the Directors anticipate that there will be further increase in water demand for non-residential use. Based on the discussion with the representatives of the Group, we understand that with the gradual ease of the coronavirus pandemic in the PRC, various industries have progressively resumed work and production in an orderly manner since March 2020 and are expected to resume the normal production levels in the second half of the year in 2020. In addition, in accordance with the Battling the Coronavirus Pandemic and Stablising Development Enterprises and Economy * (《關於堅決打贏新冠肺炎疫情防控阻擊戰全力穩企業穩經濟穩發展的若干意見》) promulgated and implemented by the People's Government of Zhejiang Province (the "Zhejiang Government") and Zhejiang Provincial Committee of the Communist Party of China on 10 February 2020, the Zhejiang Government took the initiative to enhance the scale of governmental investments and accelerate the development of large-scale public infrastructures in the province, particularly projects that focus on combating the coronavirus pandemic (e.g. projects related to public health and prevention and mitigation of the coronavirus pandemic.), creating a more dynamic macroeconomic environment in Zhejiang province, including Taizhou. In light of the above, the Directors expect that the resumption of various industries to the normal production level in the second half of the year in 2020 and the aforementioned favourable government initiatives would further drive up the water consumption for non-residential use.

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

However, the Revised Annual Caps under the Supplemental CCT Agreements are determined based on information currently available to the Company and the analysis as set out above, and the utilisation of the respective Revised 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 Revised Annual Caps under the Supplemental CCT Agreements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 CCT Agreements 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 Zhejiang 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 CCT Agreements 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 CCT Agreements, 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 CCT Agreements, for each financial year, and give confirmation in accordance with Rules 14A.55 and 14A.71 of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 have reviewed the internal control procedures governing the Group's transactions with Zhejiang 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 CCT Agreements. Further, we noted from the 2019 Annual Results of the Company for the year ended 31 December 2019 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 2019 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 CCT Agreements and safeguard the interests of the Independent Shareholders and the Company as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATIONS

Having considered the principal factors and reasons as discussed above, we are of the opinion that (i) the terms of the Supplemental CCT Agreements are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; (ii) the Revised Annual Caps are fair and reasonable; and (iii) the transactions contemplated under Supplemental CCT Agreements, including the Revised Annual Caps, are in the ordinary and usual course of business and are in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Revised Annual Caps.

Yours faithfully,
for and on behalf of
Advent Corporate Finance Limited
Icarus Ng
Managing Director

Mr. Icarus Ng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Advent Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (chapter 571 of the laws of Hong Kong). He has over 10 years of experience in corporate finance and investment banking industry.

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 the Company or are proposed to be acquired or disposed of by or leased to the Company since 31 December 2019, being the date to which the latest published audited consolidated accounts of the Company were made up.

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

4. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACT

None of the Directors and 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 AND SUPERVISORS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors, Supervisors 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 2019, being the date to which the latest published audited consolidated accounts of the Group were made up.

7. EXPERT'S QUALIFICATION AND CONSENT

The qualification of the expert who has provided its advice which is contained in this circular is set out as follows:

Independent Financial Adviser	Qualification
Advent Corporate Finance Limited	a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong),

Advent Corporate Finance Limited 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, Advent Corporate Finance Limited (i) did not have any interest, either direct or indirect, in any assets which had been, since 31 December 2019, being the date to which the latest published audited consolidated accounts 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.

8. 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 Company's H Share Registrar and transfer office in Hong Kong is at Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The joint company secretaries of the Company are Ms. Chen Liying and Ms. Siu Pui Wah.
- (d) Unless stated otherwise, in the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

9. 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 to the Independent Shareholders, the text of which is set out in pages 21 to 22 of this circular;
- (b) the written consent from Advent Corporate Finance Limited referred to in the paragraph headed "7. Expert's qualifications and consent" in this appendix;
- (c) the letter from Advent Corporate Finance Limited to the Independent Shareholders, the text of which is set out on pages 23 to 35 of this circular;
- (d) the Zhejiang Huangyan Water Supply Framework Agreement;
- (e) the Taizhou Luqiao Municipal Water Supply Framework Agreement;
- (f) the Supplemental Taizhou Luqiao Municipal Water Supply Framework Agreement; and
- (g) the Supplemental Zhejiang Huangyan Water Supply Framework Agreement.

Details of the Articles Amendments are as follows:

Article No.	Currently in force	Proposed to be amended as
Article 8	Upon approval at the general meeting of the Company by way of special resolution and approval by the relevant authorities in the PRC, the Articles of Association came into effect from the date on which the overseas listed foreign shares issued by the Company were listed and traded on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) and replaced the original articles of association and amendments thereof of the Company registered and filed with the industry and commerce administration authorities. ...	Upon approval at the general meeting of the Company by way of special resolution and approval by the relevant authorities in the PRC, the Articles of Association came into effect from the date on which the overseas listed foreign shares issued by the Company were listed and traded on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) and replaced the original articles of association and amendments thereof of the Company registered and filed with the industry and commerce administration authorities. ...
Article 12	The Company’s business scope shall be subject to such business scope as approved by the competent administration for industry and commerce. ...	The Company’s business scope shall be subject to such business scope as approved by the registration authority competent administration for industry and commerce. ...
Article 17	Domestic shares issued by the Company are retained under centralized depository of the relevant securities depository institutions for safe custody; whereas the H shares of the Company are retained as required by the law of the place of listing under the safe custody of entrusted Hong Kong securities clearing companies and such shares may also be held in the personal names of Shareholders. ...	Domestic shares issued by the Company are retained under centralized depository of the relevant securities depository institutions for safe custody; whereas the H shares of the Company are retained as required by the law of the place of listing under the safe custody of entrusted Hong Kong securities clearing companies and such shares may also be held in the personal names of Shareholders. ... (The amendments to the Chinese version do not affect the English translation of this provision.)

Article No.	Currently in force	Proposed to be amended as
Article 19	<p>Upon approval by the securities regulatory authority of the State Council and the Hong Kong Stock Exchange, the total number of ordinary shares to be issued by the Company is 50,000,000.</p> <p>...</p>	<p>Upon approval by the securities regulatory authority of the State Council and the Hong Kong Stock Exchange, the total number of ordinary shares to be issued by the Company is 50,000,000.</p> <p>...</p> <p>(The amendments to the Chinese version do not affect the English translation of this provision.)</p>
Article 22	<p>The registered capital of the Company before the issuance of H shares was RMB150 million. Upon completion of the issuance of H shares, the registered capital of the Company is RMB200 million. The Company will perform relevant registration change procedures with competent industrial and commercial administration department and report to the securities regulatory authority of the State Council for registration.</p>	<p>The registered capital of the Company before the issuance of H shares was RMB150 million. Upon completion of the issuance of H shares, the registered capital of the Company is RMB200 million. The Company will perform relevant registration change procedures with the registration authority competent industrial and commercial administration department and report to the securities regulatory authority of the State Council for registration.</p>
Article 39	<p>...</p> <p>If the Company cancels the shares as a result of share repurchase, it shall apply for registration of the change to the registered capital with the administration of industry and commerce. The aggregate par value of the cancelled shares shall be deducted from the Company's registered capital.</p>	<p>...</p> <p>If the Company cancels the shares as a result of share repurchase, it shall apply for registration of the change to the registered capital with the registration authority administration of industry and commerce. The aggregate par value of the cancelled shares shall be deducted from the Company's registered capital.</p>

Article No.	Currently in force	Proposed to be amended as
Article 59(5)	<p>the right to obtain relevant information in accordance with laws, administrative regulations, departmental rules, regulatory documents and respective requirements of the stock exchange and securities regulatory authority of the place where the Company's shares are listed and provisions of the Articles of Association, including:</p> <p>...</p> <p>(7) a copy of the latest annual inspection report (if applicable), which shall be submitted to the State Administration for Industry and Commerce of the PRC or other authorities for inspection;</p>	<p>the right to obtain relevant information in accordance with laws, administrative regulations, departmental rules, regulatory documents and respective requirements of the stock exchange and securities regulatory authority of the place where the Company's shares are listed and provisions of the Articles of Association, including:</p> <p>...</p> <p>(7) a copy of the latest annual inspection report (if applicable), which shall be submitted to the State Administration for Market Regulation Industry and Commerce of the PRC or other authorities for inspection;</p>
Article 71	<p>...</p> <p>General Meetings shall have a meeting venue and will take place in the form of an on-site meeting. When technically feasible, the Company may also provide other means to attend a General Meeting such as via the Internet in order to facilitate Shareholders' participation in the General Meeting, provided that doing so does not violate the laws and regulations and the listing rules of the listing venue. Shareholders attending a General Meeting by the aforesaid means shall be deemed present at the meeting.</p>	<p>...</p> <p>General Meetings shall have a meeting venue and will take place in the form of an on-site meeting. When technically feasible In circumstances permitted by relevant laws and regulations and the listing rules of the listing venue or the securities regulatory authorities, the Company may also provide other means to attend a General Meeting such as via the Internet in order to facilitate Shareholders' participation in the General Meeting, provided that doing so does not violate the laws and regulations and the listing rules of the listing venue as permitted or required by the securities regulatory authorities. Shareholders attending a General Meeting by the aforesaid means shall be deemed present at the meeting.</p>

Article No.	Currently in force	Proposed to be amended as
Article 72	Where the Company convenes a General Meeting, a written notice shall be given twenty (20) days before the meeting to notify the Shareholders of the time and venue of the meeting and matters to be deliberated. In the event of an Extraordinary General Meeting, the notice shall be given to each Shareholder fifteen (15) days in advance. Where the Company issues bearer share certificates, a public notice concerning the time, venue and matters to be deliberated at the meeting shall be made thirty (30) days prior to the meeting.	Where the Company convenes a General Meeting, a written notice shall be given twenty (20) working days before the meeting to notify the Shareholders of the time and venue of the meeting and matters to be deliberated. In the event of an Extraordinary General Meeting, the notice shall be given to each Shareholder ten (10) working days or fifteen (15) days (whichever is earlier) before the meeting in advance. Where the Company issues bearer share certificates, a public notice concerning the time, venue and matters to be deliberated at the meeting shall be made thirty (30) days prior to the meeting.
Article 142	A Director or other senior management of the Company (other than the general manager and chief accountant) may serve concurrently as the secretary to the Board, but they must ensure they have sufficient energy and time to undertake their duties as the secretary to the Board. Any accountant of the accounting firm engaged by the Company shall not act as the secretary to the Board. ...	A Director or other senior management of the Company (other than the general manager and chief accountant) may serve concurrently as the secretary to the Board, but they must ensure they have sufficient energy and time to undertake their duties as the secretary to the Board. Any accountant of the accounting firm engaged by the Company shall not act as the secretary to the Board. ...

Article No.	Currently in force	Proposed to be amended as
Article 215	Any amendment to the Articles of Association, for those involving the contents of the Mandatory Provisions, shall be effective upon approval by the Company's approval department authorized by the State Council and the securities regulatory authority of the State Council; for those subject to approval by the relevant regulatory authority, it shall be effective upon approval by such authority; for those involving the registration matters of the Company, the change registration shall be handled according to laws.	Any amendment to the Articles of Association shall be effective from the date on which it is considered and approved by the General Meeting. for those involving the contents of the Mandatory Provisions, shall be effective upon approval by the Company's approval department authorized by the State Council and the securities regulatory authority of the State Council; for those subject to approval by the relevant regulatory authority, it shall be effective upon approval by such authority; For those subject to approval by competent authorities, it shall be reported to competent authorities for approval; for those involving the registration matters of the Company, the change registration shall be handled according to laws.
Article 225	The Articles of Association shall be effective from the date on which the H shares publicly issued by the Company and listed on the Hong Kong Stock Exchange for trading, which are considered and approved by the General Meeting.	(Deleted)

Note: The Articles of Association is prepared in Chinese with no official English version. English translation is for reference only. In the event of any inconsistency, the Chinese version shall prevail.

1 GENERAL PROVISIONS

- 1.1** To regulate matters including decision-making authority and procedures for connected transactions of Taizhou Water Group Co., Ltd. (hereinafter the “Company”) to ensure that the Company’s connected transactions do not harm the lawful rights and interests of the Company and its non-connected shareholders, these Rules are formulated based on the actual situation of the Company in accordance with laws and regulations including the *Company Law of the People’s Republic of China*, the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* (the “Listing Rules”) and the *Articles of Association of Taizhou Water Group Co., Ltd.* (the “Articles of Association”).
- 1.2** Matters including decision-making authority and procedures for connected transactions of the Company shall comply with these Rules.
- 1.3** The Company shall follow the following principles in dealing with connected transactions:
- 1.3.1** in good faith;
- 1.3.2** an open, fair and just principle;
- 1.3.3** the principle of judgment based on objective standards;
- 1.3.4** the principle of substance over form.

2 CONNECTED PERSON AND CONNECTED RELATIONSHIP

- 2.1** According to the Listing Rules, a “connected person” is:
- (1) a director, chief executive or substantial shareholder of the Company or any of its subsidiaries; a “substantial shareholder” means a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company or any of its subsidiaries. The Company and its subsidiaries are collectively referred to as the “group of companies”.
 - (2) a person who was a director of the Company or any of its subsidiaries in the last 12 months;
 - (3) a supervisor of the Company or any of its subsidiaries;
 - (4) an associate of any of the above persons;
 - (5) a connected subsidiary; or

- (6) a person deemed to be connected by the Stock Exchange.

2.2 Definition of an associate

2.2.1 An “associate” of a connected person who is an individual includes:

- a) his spouse; his (or his spouse’s) child or step-child, natural or adopted, under the age of 18 years (each an “immediate family member”);
- b) the trustees, acting in their capacity as trustees of any trust of which the individual or his immediate family member is a beneficiary or, in the case of a discretionary trust, is (to his knowledge) a discretionary object (other than a trust which is an employees’ share scheme or occupational pension scheme established for a wide scope of participants and the connected persons’ aggregate interests in the scheme are less than 30%) (the “trustees”); or
- c) a 30%-controlled company held, directly or indirectly, by the individual, his immediate family members and/or the trustees (individually or together), or any of its subsidiaries; or
- d) a person cohabiting with him as a spouse, or his child, step-child, parent, step-parent, brother, step-brother, sister or step-sister (each a “family member”); or
- e) a majority-controlled company held, directly or indirectly, by the family members (individually or together), or held by the family members together with the individual, his immediate family members and/or the trustees, or any of its subsidiaries.

2.2.2 An “associate” of a connected person which is a legal entity includes:

- a) its subsidiary or holding company, or a fellow subsidiary of the holding company;
- b) the trustees, acting in their capacity as trustees of any trust of which the company is a beneficiary or, in the case of a discretionary trust, is (to its knowledge) a discretionary object (the “trustees”); or
- c) a 30%-controlled company held, directly or indirectly, by the company, the companies referred to in (1) above, and/or the trustees (individually or together), or any of its subsidiaries. A 30%-controlled company held by a person will not be regarded as

his or its associate if the person's and his or its associates' interests in the company, other than those indirectly held through the group of companies, are together less than 10%.

2.2.3 For the Company only, a person's associates include any joint venture partner of a cooperative or contractual joint venture (whether or not it is a separate legal entity) where:

- (1) the person (being an individual), his immediate family members and/or the trustees; or
- (2) the person (being a company), any company which is its subsidiary or holding company or a fellow subsidiary of the holding company, and/or the trustees, together directly or indirectly hold 30% (or an amount that would trigger a mandatory general offer or establish legal or management control over a business enterprise under the PRC law) or more in the joint venture's capital or assets contributions, or the contractual share of its profits or other income.

2.3 A connected subsidiary

2.3.1 A "connected subsidiary" is:

- (1) a non wholly-owned subsidiary of the Company where any connected person(s) at the Company level, individually or together, can exercise or control the exercise of 10% or more of the voting power at the subsidiary's general meeting. This 10% excludes any indirect interest in the subsidiary which is held by the connected person(s) through the Company; or
- (2) any subsidiary of a non wholly-owned subsidiary referred to in (1) above.

2.3.2 If the Company's subsidiaries are connected persons only because they are the subsidiaries of a connected subsidiary, transactions between these subsidiaries will not be treated as connected transactions.

2.3.3 A subsidiary of the Company is not a connected person if:

- 1) it is directly or indirectly wholly-owned by the Company; or
- 2) it falls under the definition of connected person only because it is:
 - a) a substantial shareholder of another subsidiary of the Company; or

- b) an associate of a director (or a person who was in the past 12 months a director), a chief executive, a substantial shareholder or a supervisor of any subsidiary of the Company.

2.4 A deemed connected person

2.4.1 A deemed connected person includes a person:

- 1) who has entered, or proposes to enter, into:
 - a) a transaction with the group of companies; and
 - b) an agreement, arrangement, understanding or undertaking (whether formal or informal and whether express or implied) with a director (including a person who was a director of the Company in the past 12 months), a chief executive, a substantial shareholder or a supervisor of each company in the group of companies with respect to the transaction; and
- 2) who, in the Stock Exchange's opinion, should be considered as a connected person.

2.4.2 A deemed connected person also includes a person:

- 1) a father in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, grandparent, grandchild, uncle, aunt, cousin, nephew or niece (each a "relative") of a director (including a person who was a director of the Company in the past 12 months), a chief executive, a substantial shareholder or a supervisor of each company in the group of companies; or
- 2) a majority-controlled company held, directly or indirectly, by the relatives (individually or together) or held by the relatives together with a director (including a person who was a director of the Company in the past 12 months), a chief executive, a substantial shareholder or a supervisor of each company in the group of companies, the trustees, his immediate family members and/or family members, or any subsidiary of that majority controlled company; and
- 3) whose association with the connected person is such that, in the Exchange's opinion, the proposed transaction should be subject to the connected transaction requirements.

- 2.5 The Stock Exchange will not normally treat a PRC Governmental Body as a connected person of the listed issuer. However, the Stock Exchange may request a company to be listed to explain its relationship with a PRC Governmental Body and why it should not be treated as a connected person.

3 CONNECTED TRANSACTIONS AND THEIR PRICES

- 3.1 Connected transactions generally refer to: (a) transactions between the Company or its subsidiaries and connected persons, and (b) specified categories of transactions between the Company or its subsidiaries and third parties that may confer benefits on connected persons through their interests in the entities involved in the transactions. Connected transactions may be one-off transactions or continuing transactions. Continuing connected transactions are usually transactions carried out in the ordinary and usual course of business and are carried out on a continuing basis and are expected to extend over a period of time. "Transactions" include both capital and revenue nature transactions, whether or not conducted in the ordinary and usual course of business of a company's group. This includes the following types of transactions:

- 3.1.1 acquisition or disposal of assets;
- 3.1.2 deemed disposals as referred to in the Listing Rules, that is, allotments of share capital by a subsidiary may result in a reduction of the percentage equity interest of the company in such subsidiary. Such allotments give rise to deemed disposals;
- 3.1.3 any transaction involving the company granting, accepting, transferring, exercising or terminating an option to acquire or dispose of assets or to subscribe for securities;
- 3.1.4 entering into or terminating finance leases;
- 3.1.5 entering into or terminating operating leases or sub-leases, including leases or sub-leases of properties;
- 3.1.6 granting an indemnity or a guarantee or providing financial assistance;
- 3.1.7 entering into any arrangement or agreement involving the formation of a joint venture entity in any form, such as a partnership or a company, or any other form of joint arrangement;
- 3.1.8 issuing new securities;
- 3.1.9 providing or receiving services;

3.1.10 sharing services;

3.1.11 providing or acquiring raw materials, intermediate products and finished goods.

3.2 Connected transactions shall comply with the business principles of openness, fairness and justice. The Company shall take effective measures to prevent connected persons from interfering in the Company's operations by monopolizing the procurement and sales business channels, and harming the Company's interests. The Company and connected persons shall enter into a written agreement for a connected transaction, and the content of the agreement shall be clear and specific.

3.3 The prices of connected transactions refer to the transaction prices of commodities, labor services and assets involved in the connected transactions between the Company and connected persons.

3.3.1 The prices or charge principles of connected transactions shall be determined based on market conditions in a fair and reasonable manner, and neither party shall use its own advantages or monopoly position to force the other party to accept unreasonable conditions.

3.3.2 The pricing of connected transactions shall be based on national policies and market conditions, and mainly follows the following principles:

- (1) if there is national pricing or national regulations should be implemented, the national pricing or national regulations shall be followed;
- (2) if there is no national pricing, it shall be determined with reference to market price;
- (3) if there is no market price, the cost-plus method (which refers to adding a reasonable profit to the cost of goods or services traded) shall be applied;
- (4) if there is no national pricing and market price, and the cost-plus method is not suitable for pricing, the agreed pricing method shall be adopted.
- (5) both parties to a connected transaction shall determine the pricing method based on the specific conditions of the transaction, which shall be specified in the related connected transaction agreement.

3.4 The prices of connected transactions shall be managed according to the following principles:

3.4.1 both parties to the transactions shall make payment in accordance with the method and time of payment agreed in the connected transaction agreements;

3.4.2 the financial department of the Company shall track the execution of connected transactions and settle the payment on time.

4 DECISION-MAKING AUTHORITY FOR CONNECTED TRANSACTIONS

4.1 When the board of directors or the general meeting considers matters concerning connected transactions, it shall be conducted in accordance with applicable laws, regulations, the Listing Rules or the Articles of Association and the procedures stipulated in the internal rules of procedure of the Company.

4.2 Reference Standards for Connected Transaction Decisions

Each percentage ratio of connected transactions is determined in accordance with the Listing Rules, and each percentage ratio and its calculation are as follows:

- (1) Assets ratio = the total assets which are the subject of the transaction / the total assets of the Company;
- (2) Profits ratio = the profits attributable to the assets which are the subject of the transaction / the profits of the Company;
- (3) Revenue ratio = the revenue attributable to the assets which are the subject of the transaction / the revenue of the Company;
- (4) Consideration ratio = the consideration of the transaction / the total market capitalisation of the Company. The market capitalisation is the average closing price for the five business days immediately preceding the date of the transaction; and
- (5) Equity capital ratio = the nominal value of new ordinary shares to be issued as consideration of the transaction / the nominal value of the Company's issued ordinary shares.

Among them, the equity capital ratio applies only to an acquisition (and not a disposal) for issuing new equity capital.

Assets, profits and revenue of the Company in the above (1), (2) and (3) are all combined values.

- 4.3 Connected transactions that are conducted in normal commercial terms and each percentage ratio of which is less than 0.1% are subject to consideration and approval by the general manager's office meeting.

- 4.4 Approval Authority of the board of directors

Connected transactions with any of the following conditions are subject to consideration and approval by the board of directors:

- (1) the transactions are on normal commercial terms, and each percentage ratio is higher than 0.1% but less than 5%; or
- (2) the transactions are on normal commercial terms, each percentage ratio is less than 25%, and the total transaction amount is less than HKD10 million (and different currencies shall be translated at the current recording exchange rate, if applicable).

- 4.5 Approval Authority of the General Meeting

4.5.1 Connected transactions other than those specified in Rules 4.3 and 4.4, unless applicable to exemptions under the Listing Rules, shall be disclosed in a timely manner after the consideration and approval of the board of directors and submitted to the general meeting for consideration. In reviewing and considering matters concerning connected transactions at the general meeting, the related shareholders shall abstain from voting and the number of voting shares represented by them shall be excluded from the total valid votes.

4.5.2 Any provision of guarantees by the Company to its connected persons, regardless of its value, is subject to consideration by the general meeting after the consideration and approval of the board of directors.

- 4.6 For connected transactions related to provision of financial assistance, guarantees and asset management on trust, the amounts incurred shall be taken as the calculation basis and shall be accumulated for 12 consecutive months according to the type of transaction; and Rules 4.2, 4.3, 4.4 and 4.5 shall apply where the accumulated amount reaches the criterion set out therein. Transactions for which the obligations under Rules 4.2, 4.3, 4.4 and 4.5 have been fulfilled shall no longer be included in the accumulative scope.

- 4.7 A connected transaction of the Company entered into for the same subject matter or with the same connected person within 12 consecutive months shall be governed by Rules 4.2, 4.3, 4.4 and 4.5 on the accumulative basis. The term connected person mentioned above shall include other connected person(s)

under the control of the same entity with the connected person or involving controlling shareholding interests of each other. Transactions for which the obligations under Rules 4.2, 4.3, 4.4 and 4.5 have been fulfilled shall no longer be included in the accumulative scope.

- 4.8 For connected transactions between the Company and connected persons involving daily operations, the Company shall make disclosure and get through the consideration procedures as required below:

4.8.1 For daily connected transactions entered into for the first time, the Company shall enter into a written agreement with the connected persons and make disclosure in a timely manner, and submit the same to the board of directors or the general meeting for consideration pursuant to Rules 4.2, 4.4 and 4.5 as applicable respectively to the transaction amount under the agreement. Where there is no transaction amount specified in the agreement, it shall be submitted to the general meeting for consideration.

4.8.2 For agreement on daily connected transactions considered and approved by the board of directors or the general meeting of the Company and in progress of performance, if there is no material change in major terms in its performance, the Company shall disclose the actual performance of agreement in its regular reports as required and state whether the transactions are in accordance with the agreement. If there is material change in major terms in performance of agreement or the agreement is to be renewed upon expiry, the Company shall submit the newly revised or renewed agreement on daily connected transactions to the board of directors or the general meeting for consideration pursuant to Rules 4.2, 4.4 and 4.5 as applicable respectively for the transaction amount under the agreement. Where there is no transaction amount specified in the agreement, it shall be submitted to the general meeting for consideration.

4.8.3 For numerous daily connected transactions each year where it would be onerous to submit each newly executed agreement on daily connected transactions to the board of directors or the general meeting for consideration as required, the Company may, before the disclosure of annual report for the previous year, submit the estimated reasonable total amount of the daily connected transactions to be entered into in the current year to the board of directors or the general meeting for consideration and make relevant disclosure pursuant to Rules 4.2, 4.4 and 4.5 as applicable respectively for the estimated transaction amount. The daily connected transactions within the estimated scope shall be disclosed in the regular reports of the Company. Where the actual amount of daily connected transactions exceeds the estimated total amount, the Company shall re-submit the same to the board of directors or the general meeting for consideration and make relevant disclosure pursuant to Rules 4.2, 4.4 and 4.5 as applicable respectively for the excessive amount.

4.9 The Company shall meet the reporting, announcement and approval requirements under the Listing Rules in respect of various types of connected transactions defined therein by the Stock Exchange, namely, fully exempted connected transactions, partially exempted connected transactions and non-exempted connected transactions.

4.9.1 Fully exempted connected transactions are subject to the annual review requirement under Rule 4.10;

4.9.2 Partially exempted one-off connected transactions shall be dealt with in accordance with the announcement requirement under Section 4.9.3.1(a) of this Rule and the reporting requirement under Section 4.9.3.1(f) of this Rule. Partially exempted continuing connected transactions shall be dealt with in accordance with the requirement under Section 4.9.3.2(a) of this Rule. Partially exempted financial assistance shall be dealt with in accordance with the requirements of partially exempted one-off connected transactions or partially exempted continuing connected transactions, depending whether it is a one-off or continuing connected transaction.

4.9.3 Non-exempted connected transactions are subject to the reporting, announcement and independent shareholders' approval requirements.

4.9.3.1 Non-exempted one-off connected transactions are subject to the reporting, announcement and independent shareholders' approval requirements, and shall be conducted on the following principles:

- (a) they shall firstly be approved by the board of directors of the Company, and the Company shall issue an announcement on the day after obtaining the approval of the board of directors.
- (b) upon approval of the board of directors and the publication of an announcement, the independent financial adviser shall confirm that the connected transactions are fair and reasonable and in the interests of the Company and its shareholders as a whole, and submit its opinion to the independent directors for review. The independent directors shall then hold a separate meeting to confirm that the connected transactions are fair and reasonable and in the interests of the Company and its shareholders as a whole. If there is a disagreement among independent directors, the majority and minority opinions shall be listed. The abovementioned opinions of the independent financial adviser and the independent directors shall be included in the circular to be dispatched to the shareholders.

- (c) the circular shall be dispatched to the shareholders within 15 business days after the publication of the announcement. Prior to dispatching the circular to the shareholders, the proposed final proof of the circular shall be submitted to the Stock Exchange for review, and the Company shall then dispatch the circular to the shareholders after the circular has been confirmed by the Stock Exchange to be in compliance with the Listing Rules. The circular shall be made available in both English and Chinese versions. Any amendments to the circular or supplemental circular and/or relevant information shall be dispatched to the shareholders not less than 10 business days before the date of the general meeting (or such earlier dates required by the Articles of Association).
- (d) connected transactions shall be submitted to the general meeting for consideration. Connected transactions are subject to approval at the general meeting. At the general meeting, any related parties with a material interest shall abstain from voting. Independent shareholders' approval shall be conducted by way of a poll. The Company shall issue an announcement to disclose the voting results on the first business day immediately after the date of the meeting. For connected transactions exempted from convening a general meeting, independent shareholders may grant approval in writing.
- (e) approved connected transactions shall be reported to the Board for filing.
- (f) a report shall be made based on the following principles: the date of a connected transaction, the relevant parties to the transaction and a description of their connected relationships, description of the transaction and its purpose, the consideration and terms (including interest rate, repayment term and security), and the nature and extent of the related parties' interests in the transaction shall be disclosed in the first annual report and accounts after the connected transaction has been concluded.

4.9.3.2 Non-exempted continuing connected transactions shall be dealt with on the following principles:

- (a) a maximum annual cap shall be set in respect of each continuing connected transaction and its calculation basis shall be disclosed.

- (b) written agreement(s) shall be entered into with the related parties in respect of each continuing connected transaction. The agreement must reflect normal commercial terms and set out the basis of the calculation of the payments to be made. The duration of the agreement must be fixed and must not exceed 3 years. Where the nature of the transaction requires the agreement to have a duration longer than 3 years, it is required to obtain a confirmation in writing from the financial adviser.
- (c) such transactions are subject to the reporting, announcement and independent shareholders' approval requirements, relevant approval procedures under the Company's internal authorization and filing with the board of directors at the same time.
- (d) such transactions are subject to the relevant requirements regarding the annual review of continuing connected transactions described in Rule 4.10.

4.9.3.3 Where a non-exempted financial assistance is a one-off connected transaction, it shall be dealt with in accordance with Section 4.9.3.1 of this Rule. Where a non-exempted financial assistance is a continuing connected transaction, it shall be dealt with in accordance with Section 4.9.3.2 of this Rule.

4.9.3.4 Internal control measures and review of continuing connected transactions

- (a) The production departments of the Company and related subsidiaries are responsible for annual and monthly production and operation plans and water supply scheduling.
- (b) The persons in charge of the production departments of the Company and related subsidiaries should follow up and understand events that may affect the caps of continuing connected transactions, including water price adjustment, droughts and floods, and provide timely feedback to the financial department of the Company.
- (c) The financial department of the Company is responsible for paying regular attention to the policy documents issued by the Taizhou Development and Reform Commission on water price and implementing the prices approved by the government in a timely manner.

- (d) For connected transactions under the connected transaction framework agreement, the financial department of the Company shall regularly monitor the caps of connected transactions. The financial department of the Company shall count the accumulated transaction amount of each related party by the end of the month on a monthly basis, and report to the management the cap balance of connected transactions.
- (e) The financial department of the Company shall regularly review the accumulated transaction amount with related parties in the current year and conduct forecast and analysis to ensure that the accumulated caps of connected transactions does not exceed the applicable annual caps of continuing connected transactions. If the predicted result of the analysis is close to or reaches the annual caps of continuing connected transactions, the Company shall perform the decision-making procedure to adjust the caps of the connected transactions according to this Rule 4.

4.9.4 Exemptions from the connected transaction requirements are available for the following types of transactions according to the Listing Rules:

- (1) de minimis transactions;
- (2) financial assistance;
- (3) issue of new securities by group company;
- (4) dealings in securities on stock exchanges;
- (5) directors' service contracts and insurance;
- (6) repurchases of securities by group company;
- (7) buying or selling of consumer goods or services;
- (8) sharing of administrative services;
- (9) transactions with associates of passive investors; and
- (10) transactions with connected persons at the subsidiary level.

4.10 Annual review requirements are as follows:

4.10.1 The Company's independent directors must review the continuing connected transactions every year and confirm in the annual report and the accounts whether the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Company;
- (2) on normal commercial terms or terms no less favourable to the Company than terms available to or from independent third parties (as the case may be) if the comparable transactions are not sufficient to determine whether the terms of the transactions are on normal commercial terms; and
- (3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

4.10.2 The auditors must provide a letter (a copy must be sent to the Stock Exchange at least 10 business days before the bulk printing of the Company's annual report) to the Company's board of directors every year confirming that the continuing connected transactions:

- (1) have been approved by the Company's board of directors;
- (2) were in accordance with the pricing policies of the Company if the transactions involve the provision of goods or services by the Company;
- (3) were entered into in accordance with the relevant agreement governing the transactions; and
- (4) have not exceeded the cap disclosed in the previous announcements.

4.10.3 The Company must allow, and procure the counterparties to the continuing connected transactions allow, the auditors sufficient access to the Company's records for the purpose of reporting on the transactions under these Rules. The Company's board of directors must indicate in the annual report whether its auditors have confirmed the matters as required in Rule 4.10.2 above.

4.10.4 The Company must promptly notify the Stock Exchange and publish an announcement if it is aware or has reason to believe that the independent directors and/or the auditors cannot confirm the matters as required in Rules 4.10.1 or 4.10.2 above, respectively. The Company may be required to re-comply with the requirements of Rule 4.9 and additional conditions deemed appropriate by the Stock Exchange.

4.10.5 If the Company has entered into an agreement for continuing transactions, and the transactions subsequently become continuing connected transactions (for any reason, for example, one of the parties to the transactions becomes a director of the Company), the Company must promptly after becoming aware of this fact, comply with all applicable reporting, annual review and disclosure requirements under the Listing Rules for all these continuing connected transactions. If the agreement is modified or renewed, the Company must fully comply with all applicable reporting, annual review, disclosure, and independent shareholders' approval requirements under the Listing Rules for all continuing connected transactions that have taken effect after such modification or renewal.

5 DECISION-MAKING PROCEDURES FOR CONNECTED TRANSACTIONS

5.1 For connected transactions that are required by Rule 4 to be reviewed and approved by the general manager's office meeting of the Company, the relevant functional department of the Company shall report the connected transactions to the Company's general manager in writing, and the general manager's office meeting shall review the necessity, rationality and fairness of the connected transactions which shall be implemented by relevant departments after the review.

5.2 A connected transaction that is required by Rule 4 to be reviewed and approved by the board of directors is subject to the decision-making procedures as below:

5.2.1 The relevant functional department of the Company drafts a detailed report in writing of the connected transaction and a connected transaction agreement, and submit the same to the board of directors for deliberation after preliminary review by the general manager's office meeting;

5.2.2 The chairman of the Company or the secretary to the board of directors shall issue a notice of convening a board meeting to all directors of the Company after receiving the proposal, and the board of directors shall review and discuss the necessity, rationality and fairness of the connected transaction. For major connected transactions (i.e. connected

transactions proposed to be entered into between the Company and connected persons with an aggregated amount exceeding 5% of the Company's recent audited net assets), independent directors should express their opinions of agreement or not before the same are submitted to the board of directors for discussion. Independent opinions should also be expressed by independent directors at the meeting of the board of directors.

5.2.3 The board of directors shall vote on the connected transaction, which can be implemented after approval.

5.3 Regardless of whether the Company's connected transaction requires the approval of the board of directors, the connected directors shall disclose the nature of their connected relationship and degree to the board of directors before the transaction occurs.

When the board of directors of the Company deliberates the connected transaction, the connected directors may attend the board meeting. At the meeting, the connected directors shall explain their connected relationship and abstain from voting. The connected directors shall not act on behalf of other directors to exercise voting rights. The quorum of the meeting of the board of directors shall be a majority of unconnected directors present at the meeting. A resolution of the meeting of the board of directors requires a majority of unconnected directors to vote in favour in order for it to be passed. If the number of unconnected directors present at the meeting of the board of directors is less than 3, the transactions shall be submitted by the Company to the shareholders' general meeting for consideration.

5.4 Connected directors mentioned in the preceding paragraph include the following directors or directors who:

5.4.1 are counterparties;

5.4.2 work for counterparties, or for legal person entities which control or are controlled by counterparties directly or indirectly;

5.4.3 have direct or indirect control over counterparties;

5.4.4 are close family members of counterparties or direct or indirect controllers of counterparties;

5.4.5 are close family members of directors, supervisors and senior management of counterparties or direct or indirect controllers of counterparties;

5.4.6 are such directors whose independent business judgment may be affected due to other reasons as identified by the Company.

- 5.5 For connected transactions that are required to be considered and approved by the Company's general meeting as stipulated by Rule 4, if the subject matter of the connected transaction is shares of a company, the Company shall engage an accounting firm with relevant qualifications to conduct securities and futures businesses to audit the financial report of the subject matter of the transaction for the most recent 1 year and 1 quarter. The last day of the reporting period of the audit shall not exceed six months from the day the agreement is signed. If the subject matter of the connected transaction is assets other than a company's shares, the Company shall also engage an asset valuation organization with relevant qualifications to conduct securities and futures businesses to conduct a valuation. The reference day of the valuation should not exceed one year from the day the agreement is signed.
- 5.6 When the connected transactions are considered at the Company's general meeting, the connected shareholders shall abstain from voting. When resolutions on the related connected transactions are made at the general meeting, depending on the difference between ordinary resolutions and special resolutions, more than one-half and two-thirds of the voting rights held by non-connected shareholders attending the general meeting shall be adopted, respectively. For the voting on connected transactions, a qualified independent third-party agency representative shall participate in the counting and monitoring of votes. The voting of non-connected shareholders shall be fully disclosed in the resolutions of the general meeting.
- 5.7 Connected shareholders mentioned in the preceding paragraph include the following shareholders or any of the shareholders who:
- 5.7.1 are counterparties;
 - 5.7.2 have direct or indirect control over counterparties;
 - 5.7.3 are directly or indirectly controlled by counterparties;
 - 5.7.4 are under common control with counterparties of counterparties by the same legal or natural person;
 - 5.7.5 are close family members of counterparties or direct or indirect controllers of counterparties;
 - 5.7.6 work for counterparties, or for legal entities which control or are controlled by counterparties directly or indirectly (if the shareholders are natural persons);
 - 5.7.7 have its voting rights restricted and affected due to the existence of outstanding equity interest transfer agreements or other agreements with counterparties or their connected persons;

5.7.8 are such shareholders towards whom the Company has a bias, as identified by the Company.

5.8 As connected transactions entered into by the Company's holding subsidiaries are deemed to be an act of the Company, their decision-making procedures and disclosures are subject to the provisions of these Rules.

5.9 when the Company entered into the following connected transactions with connected parties, it is exempted from performing the relevant obligations pursuant to these Rules:

5.9.1 when one party subscribes in cash for the public offering of shares, corporate bonds or enterprise bonds, convertible corporate bond or other types of derivative products of the other party;

5.9.2 when one party acts as a member of the underwriting consortium to underwrite the public offering of shares, corporate bonds or enterprise bonds, convertible corporate bonds or other types of derivative products of the other party;

5.9.3 when one party collects dividends, bonus or returns according to the resolution of a general meeting of the other party;

5.9.4 one party participates in the connected transactions via public tenders, public auctions and other activities;

5.9.5 other circumstances identified by relevant national laws, administrative regulations, or normative documents.

6 AMENDMENTS TO THESE RULES

6.1 The board of directors shall organize to amend these Rules in a timely manner and it will take effect after approval by the general meeting under any of the following circumstances:

6.1.1 matters stipulated in these Rules conflict with current, newly revised or promulgated laws, administrative rules or regulatory documents of the PRC and the provisions of the Listing Rules;

6.1.2 matters stipulated in these Rules conflict with the revised Articles of Association;

6.1.3 the general meeting has resolved to amend these Rules.

- 6.2 Amendments to these Rules are information required to be disclosed by laws, administrative rules or regulatory documents and shall be disclosed in announcement or other forms as required.

7 SUPPLEMENTARY PROVISIONS

- 7.1 The terms “above” or “below” as mentioned herein shall include the underlying figures; such terms “other than” or “lower than” shall not include the underlying figures. Unless the context requires otherwise, the terms “connected” and “connected person” as mentioned herein are consistent with the Listing Rules and have the same meaning as “related” and “related person” in the Articles of Association and other rules of the Company.
- 7.2 Any matters not covered herein shall be carried out in accordance with relevant laws, administrative rules and regulatory documents of the PRC and the provisions of the Listing Rules and the Articles of Association.
- 7.3 Where these Rules conflict with subsequently promulgated laws, administrative rules and regulatory documents of the PRC or the Listing Rules (as amended from time to time) or the legally revised Articles of Association, it shall be amended in accordance with relevant laws, administrative rules and regulatory documents of the PRC, the Listing Rules and the Articles of Association.
- 7.4 These Rules shall take effect and shall be implemented from the date of approval by the general meeting, and the same shall apply when revised.
- 7.5 These Rules shall be interpreted by the board of directors of the Company.

Note: The rules of management of connected transactions is prepared with no official English version. English version is for reference only. In the event of any inconsistency, the English version shall prevail.

NOTICE OF EGM



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 2020 First 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 2:30 p.m. on Thursday, 24 September 2020 to consider and, if thought fit, to pass, with or without modifications, the following resolutions of the Company. Unless otherwise stated, capitalised terms used in this notice shall have the same meanings as defined in the circular of the Company dated 3 September 2020.

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the Supplemental Zhejiang Huangyan Water Supply Framework Agreement, a copy of which is tabled at the meeting and marked “A” and initialled by the chairman of the meeting for identification purpose, and the transactions contemplated thereunder, be and are hereby confirmed and approved;
- (b) the Revised Zhejiang Huangyan Annual Cap under the Supplemental Zhejiang Huangyan Water Supply Framework Agreement be and is hereby approved; and
- (c) any one Director of the Company be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated therein and the completion of the Supplemental Zhejiang Huangyan Water Supply Framework Agreement.”;

* For identification purposes only.

NOTICE OF EGM

2. “**THAT:**
 - (a) the Supplemental Taizhou Luqiao Municipal 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, and the transactions contemplated thereunder, be and are hereby confirmed and approved;
 - (b) the Revised Taizhou Luqiao Annual Cap under the Supplemental Taizhou Luqiao Municipal Water Supply Framework Agreement be and is hereby approved; and
 - (c) any one Director of the Company be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated therein and the completion of the Supplemental Taizhou Luqiao Municipal Water Supply Framework Agreement.”;
3. To consider and approve the injection of capital to Binhai Water; and
4. To consider and approve the adoption of the revised rules of procedures of management of connected transactions.

SPECIAL RESOLUTION

5. To consider and approve the proposed amendments to the Articles of Association, the details of which are set out in Appendix II to the circular of the Company dated 3 September 2020 and relevant authorisation.

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

Taizhou, the PRC
3 September 2020

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 has been closed from Monday, 24 August 2020 to Thursday, 24 September 2020 (both days inclusive), during which period no transfer of 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, 21 August 2020.

NOTICE OF EGM

3. 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.
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 2:30 p.m. on Wednesday, 23 September 2020). 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) on or before Thursday, 3 September 2020.
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.