

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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Taizhou Water Group Co., Ltd.*
台州市水務集團股份有限公司

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1542)

- (1) PROPOSED PROFIT DISTRIBUTION PLAN AND FINAL DIVIDEND;**
 - (2) PROPOSED FORMATION OF JOINT VENTURE COMPANY;**
 - (3) CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF HUANGYAN RESERVOIR WATER SUPPLY FRAMEWORK AGREEMENT;**
 - (4) PROPOSED PROVISION OF GUARANTEES BY THE COMPANY;**
 - (5) PROPOSED APPOINTMENT OF DIRECTOR;**
 - (6) PROPOSED ADOPTION OF THE REVISED RULES OF INVESTMENT MANAGEMENT;**
- AND**
- (7) NOTICE OF THE ANNUAL GENERAL MEETING**

A notice convening the AGM of the Company to be held at Conference Room, Taizhou Water Group Co., Ltd., No. 308 Yin Quan Road, Xicheng Street, Huangyan District, Taizhou, Zhejiang Province, the PRC at 3:00 p.m. on Friday, 30 June 2023 is set out on pages AGM-1 to AGM-5 of this circular. A form of proxy for use at the AGM is also enclosed with this circular. Whether or not you intend to attend and vote at the AGM, 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 AGM (i.e. before 3:00 p.m. on Thursday, 29 June 2023) or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the AGM or any adjourned meeting should you so wish and in such event the form of proxy shall be deemed to be revoked.

DEFINITIONS

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

“14th Five-Year Plan”	the 14th Five-Year Plan for the National Economic and Social Development and Long-Range Objectives for 2035 of the People’s Republic of China (《中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》) published by the NPC of the People’s Republic of China in 2021
“AGM” or “Annual General Meeting”	the annual general meeting of the Company for the year ended 31 December 2022 to be held at Conference Room, Taizhou Water Group Co., Ltd., No. 308 Yin Quan Road, Xicheng Street, Huangyan District, Taizhou, Zhejiang Province, the PRC at 3:00 p.m. on Friday, 30 June 2023 or any adjournment thereof
“Articles of Association”	the articles of association of the Company, as amended from time to time
“Board” or “Board of Directors”	the board of directors of the Company
“Chairman”	the chairman of the Board of Directors of the Company
“China” or “PRC”	the People’s Republic of China, which for the purpose of this circular only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Company”	Taizhou Water Group Co., Ltd.* (台州市水務集團股份有限公司), a joint stock company established in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1542)
“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
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company

DEFINITIONS

“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
“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 Reservoir Development”	Huangyan Reservoir Development Operation Co., Ltd.* (台州市黃岩水庫開發經營有限公司), an indirect wholly-owned subsidiary of the Finance Bureau of Huangyan District of Taizhou
“Huangyan Reservoir Water Supply Framework Agreement”	an agreement dated 31 March 2023 entered into between the Company and Huangyan Reservoir Development in respect of the provision of raw water supply services by Huangyan Reservoir Development to the Group
“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 Huangyan Reservoir Water Supply Framework Agreement
“Independent Financial Adviser”	Honestum International Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Huangyan Reservoir Water Supply Framework Agreement and the transactions contemplated thereunder

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“Independent Shareholders”	Shareholders who do not have a material interest in the Huangyan Reservoir Water Supply Framework Agreement
“Independent Third Party(ies)”	party(ies) who is (are) not connected person(s) of the Company and its subsidiaries
“Joint Venture Agreement”	the agreement dated 19 April 2023 entered into between the Company and Zhejiang Yongan in relation to the formation of the Joint Venture Company
“Joint Venture Company”	Zhejiang Xianzhiquan Water Co., Ltd.* (浙江仙之泉水業有限公司), a limited liability company to be established by the Company and Zhejiang Yongan under the laws of the PRC pursuant to the Joint Venture Agreement
“Latest Practicable Date”	24 May 2023, 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
“Notice of AGM”	the notice convening the AGM set out on pages AGM-1 to AGM-5 of this circular
“NPC”	the National People’s Congress of the People’s Republic of China
“Prospectus”	the prospectus of the Company dated 17 December 2019
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the Domestic Share(s) and/or the H Share(s)
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Strategy Committee”	the strategy committee of the Board
“subsidiary/(ies)”	has the meaning ascribed to it under the Listing Rules
“Supervisor(s)”	member(s) of the supervisory committee of the Company
“Taizhou City Water”	Taizhou City Water Co., Ltd.* (台州城市水務有限公司), a limited liability company established in the PRC and a subsidiary of the Company owned as to 82% by the Company and 18% by Wenling Water Group Co., Ltd.* (溫嶺市水務集團有限公司), respectively
“Taizhou DRC”	Taizhou Development and Reform Commission (台州市發展和改革委員會)
“Yongning Financial Consulting”	Zhejiang Yongning Financial Consulting Co., Ltd.* (浙江永寧財務諮詢有限公司), a limited liability company established in the PRC which holds approximately 13.34% of the total issued share capital of the Company as at the Latest Practicable Date
“Zhejiang Yongan”	Zhejiang Yongan Water Group Co., Ltd.* (浙江永安水務集團有限公司), a limited liability company incorporated under the laws of the PRC
“%”	per cent

* For identification purposes only



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. Pan Gang

Non-executive Directors:

Mr. Lin Genman

Ms. Fang Ya

Mr. Yu Yangbin

Mr. Ye Xiaofeng

Mr. Yang Yide

Mr. Guo Dingwen

Mr. Lin Yang

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

No. 308 Yin Quan Road

Xicheng Street

Huangyan District

Taizhou, Zhejiang Province

PRC

Principal Place of Business in Hong Kong:

14/F., Golden Centre

188 Des Voeux Road Central

Hong Kong

Independent non-executive Directors:

Ms. Lin Suyan

Ms. Hou Meiwen

Mr. Li Wai Chung

Mr. Wang Yongyue

Mr. Huang Chun

31 May 2023

To the Shareholders

Dear Sir or Madam,

- (1) PROPOSED PROFIT DISTRIBUTION PLAN AND FINAL DIVIDEND;
(2) PROPOSED FORMATION OF JOINT VENTURE COMPANY;
(3) CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF
HUANGYAN RESERVOIR WATER SUPPLY FRAMEWORK AGREEMENT;
(4) PROPOSED PROVISION OF GUARANTEES BY THE COMPANY;
(5) PROPOSED APPOINTMENT OF DIRECTOR;
(6) PROPOSED ADOPTION OF THE REVISED RULES OF
INVESTMENT MANAGEMENT;
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LETTER FROM THE BOARD

1. INTRODUCTION

At the Annual General Meeting, resolutions will be proposed for the Shareholders to consider and, if thought fit, approve, among other matters, (1) the proposed profit distribution plan and final dividend; (2) the proposed formation of Joint Venture Company; (3) continuing connected transactions in respect of Huangyan Reservoir Water Supply Framework Agreement; (4) the proposed provision of guarantees by the Company; (5) the proposed appointment of Director; (6) the proposed adoption of the revised rules of investment management, and to give you the Notice of AGM.

2. PROPOSED PROFIT DISTRIBUTION PLAN AND FINAL DIVIDEND

A. Proposed profit distribution plan and final dividend

According to the Company Law of the PRC (《中華人民共和國公司法》) and the Articles of Association, an ordinary resolution will be proposed at the AGM to approve the Company's profit distribution plan for the year ended 31 December 2022.

The Board has resolved to submit to the Shareholders for their consideration and approval a profit distribution plan for the year ended 31 December 2022. The Board proposed the payment of a final dividend of RMB0.075 (tax inclusive) per Share for the year ended 31 December 2022 to Shareholders (the "**Proposed Final Dividend**"). Based on the Company's total number of Shares in issue as at the Latest Practicable Date, the total dividend to be paid to the Shareholders amounts to approximately RMB15.0 million. If such proposal is approved at the AGM, the Proposed Final Dividend will be distributed to Shareholders whose names appear on the register of members of the Company on Wednesday, 12 July 2023.

Pursuant to the requirements under the Articles of Association, dividend shall be denominated and declared in RMB. Dividend for Domestic Shares will be paid in RMB, while dividend for H Shares will be paid in HKD. The Proposed Final Dividend will be paid to holders of Domestic Shares in RMB and to holders of H Shares in HKD as converted based on the average closing rate for converting RMB into HKD of the five business days prior to the date on which the Proposed Final Dividend is declared at the AGM (i.e. Friday, 30 June 2023) as quoted by the People's Bank of China. The Proposed Final Dividend is subject to the approval of Shareholders at the AGM and, upon approval at the AGM, is expected to be distributed on or before Friday, 22 September 2023.

According to the Enterprise Income Tax Law of the PRC and its implementation regulations (the "**EIT Law**"), the tax rate of the enterprise income tax applicable to the income of a non-resident enterprise deriving from the PRC is 10%. For this purpose, any H Shares registered under the name of non-individual enterprise, including the H Shares registered under the name of HKSCC Nominees Limited, other nominees or trustees, or other organisations or entities, shall be deemed as shares held by non-resident enterprise shareholders (as defined under

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the EIT Law). The Company will distribute the dividend to those non-resident enterprise Shareholders subject to a deduction of 10% enterprise income tax withheld and paid by the Company on their behalf.

Any resident enterprise (as defined under the EIT Law) which has been legally incorporated in the PRC or which was established pursuant to the laws of foreign countries (regions) but has established effective administrative entities in the PRC, and whose name appears on the Company's H Share registrar should deliver a legal opinion ascertaining its status as a resident enterprise furnished by a qualified PRC lawyer (with the official chop of the law firm issuing the opinion affixed thereon) and relevant documents to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, in due course, if they do not wish to have the 10% enterprise income tax withheld and paid on their behalf by the Company.

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Guoshuifa [1993] No. 045 Document (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) (the "Notice") issued by the State Taxation Administration on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprise which has issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and the PRC. Thus, 10% individual income tax will be withheld from the dividend payable to any individual holders of H Shares whose names appear on the H Share register of members of the Company on the record date, unless otherwise stated in the relevant taxation regulations, tax treaties or the Notice.

B. Closure of register of members

For the purpose of determination of the list of Shareholders who shall be entitled to the Proposed Final Dividend, subject to the approval of the Shareholders at the AGM, the register of members of the Company will be closed from Thursday, 6 July 2023 to Wednesday, 12 July 2023 (both days inclusive), during which period no transfer of Shares will be effected. The Company will distribute the Proposed Final Dividend to Shareholders whose names appear on the register of members of the Company on Wednesday, 12 July 2023.

In order to be entitled to the Proposed Final Dividend, all transfers of H Shares 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 Wednesday, 5 July 2023.

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3. PROPOSED FORMATION OF JOINT VENTURE COMPANY

On 19 April 2023, the Company and Zhejiang Yongan, an Independent Third Party, entered into the Joint Venture Agreement in relation to the formation of the Joint Venture Company.

The principal terms of the Joint Venture Agreement are set out below:

Date : 19 April 2023

Parties : (1) The Company; and
(2) Zhejiang Yongan

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, Zhejiang Yongan and its ultimate beneficial owners are Independent Third Parties and not connected with the Group and its connected persons.

Name of the Joint Venture Company : Zhejiang Xianzhiquan Water Co., Ltd.* (浙江仙之泉水業有限公司)

Proposed purpose and business scope of the Joint Venture Company : (i) To construct the production facility for the production of bottled drinking spring water; and (ii) to produce, market and sell bottled drinking spring water.

Details of contribution to the registered capital of the Joint Venture Company : The total registered capital of the Joint Venture Company will be RMB50,000,000, which shall be contributed as follows:

(1) RMB25,500,000 in cash by the Company, representing 51% of the registered capital of the Joint Venture Company, and of which RMB12,750,000 shall be made at the first stage of payment within 3 months following approval at the AGM, and the remaining RMB12,750,000 shall be made within 2 years of the establishment of the Joint Venture Company; and

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- (2) RMB24,500,000 in assets, and to make good any shortfall in the value of the assets against the aforementioned contribution amount to registered capital in cash, by Zhejiang Yongan, representing 49% of the registered capital of the Joint Venture Company, which shall be contributed to the Joint Venture Company within 2 years of its establishment.

The amount of capital contribution was determined after arm's length negotiations between the Company and Zhejiang Yongan with reference to the initial capital requirement of the Joint Venture Company. The capital contribution by the Company will be funded by the Group's internal resources.

- Place of incorporation : The PRC
- Board composition and management of the Joint Venture Company : The board of directors of the Joint Venture Company shall consist of five directors, of whom two shall be appointed by the Company, including the chairman, two shall be appointed by Zhejiang Yongan and one shall be an employee director elected internally from the workforce of the Joint Venture Company.

Zhejiang Yongan shall appoint the general manager of the Joint Venture Company, whereas the board of the Joint Venture Company shall appoint the senior management therefor.

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Reasons for and Benefits of the Formation of the Joint Venture Company

The Board considers that there is significant demand for healthy drinking spring water in the Yangtze River Delta region. The Directors consider that the formation of the Joint Venture Company will provide an opportunity for the Group to take advantage of the natural spring water reserves of the Tianshi Town, Xianju County (仙居縣田市鎮) for the purpose of commercializing bottled water under the Joint Venture Company's own brand and sales channel. The production facility is proposed to be situated in Tianshi Town, Xianju County. Once the facility reaches full production capacity, the facility is expected to support a daily production of approximately 500 tonnes of bottled drinking water under normal operations. It is believed that the completion of the above project would improve supply of healthy drinking water and promote industries and development within the Xianju County, and enable the Group to better align its business strategy with the 14th Five-Year Plan published by the NPC in 2021 in relation to the development of green industries, which includes the supply of water.

The Directors (including the independent non-executive Directors) are of the view that the Joint Venture Agreement is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As the Company will own 51% equity interest in the Joint Venture Company, the Joint Venture Company will become a non-wholly owned subsidiary of the Company. As a result, it is expected that the financial results of the Joint Venture Company will be consolidated into the Group's consolidated financial statements.

4. CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF HUANGYAN RESERVOIR WATER SUPPLY FRAMEWORK AGREEMENT

Reference is made to the announcement of the Company dated 31 March 2023 in relation to, among others, the continuing connected transactions in respect of Huangyan Reservoir Water Supply Framework Agreement.

On 31 March 2023, the Company and Huangyan Reservoir Development entered into the Huangyan Reservoir Water Supply Framework Agreement to govern the terms and conditions of the transactions between the Company and Huangyan Reservoir Development in respect of the provision of raw water by Huangyan Reservoir Development to the Group for a term commencing on the date of approval by the Shareholders at the general meeting and ending on 31 December 2025.

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Principal Terms

The principal terms of the Huangyan Reservoir Water Supply Framework Agreement are set out as follows:

Date:	31 March 2023
Parties:	(i) the Company; and (ii) Huangyan Reservoir Development
Term:	Commencing on the date of approval by the Shareholders at the general meeting and ending on 31 December 2025.
Subject Matter:	Huangyan Reservoir Development agreed to provide raw water supply services to the Group.
Pricing guideline:	<p>The prices of the sales of raw water supply services provided by Huangyan Reservoir Development to 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.</p> <p>The unit price of raw water procurement fee of Changtan Reservoir is fixed by Taizhou DRC by way of government notice as published from time to time. The last government notice, namely the Notice on Adjustments on the Price of Changtan Reservoir Raw Water (Tai Fa Gai Jia Ge [2017] No. 228) (關於調整長潭水庫原水價格的通知(台發改價格[2017]228號)) was issued by Taizhou DRC in November 2017, and became effective on 1 January 2018. The raw water procurement fee from Changtan Reservoir has remained unchanged since then.</p>
Payment term:	Payment for the transactions contemplated under the Huangyan Reservoir Water Supply Framework Agreement shall be made on a monthly basis based on the volume of water supplied to the Group.

Historical Transaction Amount, Annual Caps and Basis for Determining the Annual Caps

As disclosed in the Prospectus and the 2022 Annual Report of the Company, all of the water of the Group is drawn from Changtan Reservoir (長潭水庫). The transaction amounts in respect of the raw water supply services from Changtan Reservoir to the Group were approximately RMB79.9 million and RMB75.7 million for the years ended 31 December 2021 and 2022, respectively. Pursuant to the Minutes of the 16th Executive Meeting of the People's Government of Huangyan District of Taizhou City* (《台州市黃岩區人民政府第16次常務會議紀要》), the administration rights of Changtan Reservoir have been transferred to Huangyan Reservoir Development. As such, the Company entered into the Huangyan Reservoir Water Supply Framework Agreement to source the raw water from Huangyan Reservoir Development.

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The expected annual caps for the transactions contemplated under the Huangyan Reservoir Water Supply Framework Agreement payable by the Company to Huangyan Reservoir Development are set out below:

	Year ending 31 December		
	2023	2024	2025
	(RMB'000)	(RMB'000)	(RMB'000)
Expected annual caps	50,000	88,000	88,000

The proposed annual caps were determined with reference to (i) the increasing demand for raw water since the outbreak of the coronavirus pandemic in the PRC in 2020; (ii) the historical transaction amounts of raw water supply services from Changtan Reservoir for the years ended 31 December 2021 and 2022; and (iii) the Group's water intake limit stated in the water intake permit (取水許可證).

Reasons for and Benefits of Entering into the Continuing Connected Transactions

The Group has been drawing raw water from Changtan Reservoir, the largest reservoir in Taizhou in terms of storage capacity since 1995, which will then be transmitted through the Taizhou Water Supply System (Phases I, II and III) to municipal water service providers or be processed by the Taizhou Water Treatment Plant, and ultimately to end-users. Pursuant to the Minutes of the 16th Executive Meeting of the People's Government of Huangyan District of Taizhou City* (《台州市黃岩區人民政府第16次常務會議紀要》), the administration rights of Changtan Reservoir were transferred to Huangyan Reservoir Development. In view of the above and for the purpose of securing the source of raw water supply from Changtan Reservoir, the Company considers that the transactions contemplated under the Huangyan Reservoir Water Supply Framework Agreement will provide the Group with stable source of raw water for its business operation.

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 Huangyan Reservoir Water Supply Framework Agreement is entered into in the usual and ordinary course of business of the Group, is conducted on an arm's length basis and on normal commercial terms, and in the interests of the Company and the Shareholders as a whole, and the terms of the Huangyan Reservoir Water Supply Framework Agreement (including the proposed annual caps) are fair and reasonable.

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

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Internal Control Policies and Procedures

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

- (1) The finance department of the Company shall regularly monitor the caps of connected transactions, count the accumulated amounts of transactions with Huangyan Reservoir Development 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.
- (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 caps under the Huangyan Reservoir Water Supply Framework Agreement 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 Huangyan Reservoir Water Supply Framework Agreement, for each financial year in accordance with Rule 14A.56 of the Listing Rules.
- (5) The independent non-executive Directors will conduct an annual review with respect to the continuing connected transactions, including the transactions under the Huangyan Reservoir Water Supply Framework Agreement, throughout the preceding financial year, and give confirmation in accordance with Rules 14A.55 and 14A.71 of the Listing Rules.

5. PROPOSED PROVISION OF GUARANTEES BY THE COMPANY

For the purpose of production and operation needs, Taizhou City Water obtained a facility in the sum of RMB85 million secured by specific asset charging rights from Industrial and Commercial Bank of China Limited Taizhou Huangyan Branch* (中國工商銀行股份有限公司台州黃岩支行) in February 2023 at such interest rate on normal commercial terms (the “**ICBC Facility**”). The Group provides guarantee for the ICBC Facility with guarantee period ending on 31 December 2028 (the “**ICBC Guarantee**”).

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For the purpose of financing the potential construction work of certain water pipelines of the Group, Taizhou City Water proposed to obtain a credit facility of RMB176 million from relevant banks, which requires the Group to provide a guarantee with a guarantee period expecting to end on or around 31 December 2028 (the “**Potential Construction Work Guarantee**”).

In addition, due to the needs for supplementary working capital, Taizhou City Water intends to apply for a comprehensive credit loan from relevant banks in an amount of no more than RMB139 million, which requires the Group to provide a guarantee with a guarantee period expecting to end on or around 31 December 2028 (the “**Supplementary Working Capital Guarantee**”).

Pursuant to the relevant provisions under the management policy of the Company, the provision of the ICBC Guarantee, the Potential Construction Work Guarantee and the Supplementary Working Capital Guarantee (together, the “**Guarantees**”) as set out above is subject to approval by the Shareholders as a special resolution. The determined limit of the Guarantees mentioned above represents only the contemplated and maximum amount of the Guarantees to be provided by the Company. The specific amount of guarantee transactions, the method, term and scope of guarantee shall be subject to the guarantee agreement(s) to be signed with the relevant banks or financial institutions.

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

6. PROPOSED APPOINTMENT OF DIRECTOR

Reference is made to the announcement of the Company dated 8 May 2023 in relation to the proposed change of non-executive Director and member of the Strategy Committee. The Board has resolved to appoint Mr. Shao Aiping (邵愛平) (“**Mr. Shao**”) as a non-executive Director and a member of the Strategy Committee for a term commencing from the date of approval at the AGM until the expiration of the term of the fifth session of the Board. The appointment of Mr. Shao will only become effective after being approved by the Shareholders at the AGM.

The biographical details of Mr. Shao are as follows:

Mr. Shao, aged 57, joined Taizhou Urban Construction and Investment Development Group Co., Ltd.* (台州市城市建設投資發展集團有限公司) (formerly known as Taizhou Infrastructure Construction Investment Co., Ltd.* (台州市基礎設施建設投資有限公司) and subsequently as Taizhou Infrastructure Construction Investment Group Co., Ltd.* (台州市基礎設施建設投資集團有限公司) before the current name was adopted) (“**Taizhou Urban Construction**”), the Company’s substantial shareholder, as (i) deputy manager of the project management department from July 2003 to February 2005, and as (ii) manager of the investment development department from February 2005 to February 2011. Mr. Shao then served in various other positions at Taizhou Urban Construction, including as: (i) party member from February 2011 to October 2015, (ii) party committee member from October 2015 to April 2016 and subsequently from March 2017 to the present; and (iii) as

LETTER FROM THE BOARD

deputy general manager since January 2014. He graduated with a bachelor of engineering degree in industrial and civil construction in 1986 from Zhejiang Institute of Technology* (浙江工學院) (currently known as Zhejiang University of Technology* (浙江工業大學)), and was accredited as a senior engineer in December 2015 by the Zhejiang Province Human Resources and Social Security Department* (浙江省人力資源和社會保障廳).

Prior to joining Taizhou Urban Construction, Mr. Shao served as: (i) a cadre of the Taizhou Regional Planning and Economic Commission (Construction Quota Station)* (台州地區計經委(建築定額站)) (currently known as the Taizhou Construction Engineering Cost Affairs Centre (Taizhou Construction Project Bidding and Bidding Affairs Center)* (台州市建設工程造價事務中心(台州市建設工程招標投標事務中心))) from July 1986 to November 1994; (ii) a cadre of the Taizhou Construction Engineering Cost Management Office* (台州市建設工程造價管理處) from November 1994 to January 1998; (iii) deputy director and party committee member of the Linhai Construction Bureau* (臨海市建設局) (currently known as the Linhai Housing and Urban Construction Planning Bureau* (臨海市住房和城鄉建設局)) from January 1998 to January 2000; and (iv) director of Linhai Construction Engineering Management Office* (臨海建設工程管理處) (currently known as the Linhai Construction Engineering Affairs Center* (臨海市建設工程事務中心)) of the Linhai Housing and Urban Construction Planning Bureau and director of the Linhai Construction Engineering Trading Center* (臨海建設工程交易中心) (currently known as the Linhai Public Resources Trading Center* (臨海市公共資源交易中心)) concurrently from March 1999 to July 2003.

During the terms of his aforementioned posts, Mr. Shao also served on a part-time basis as: (i) general manager of Taizhou Yuanlu Highway Construction and Development Co., Ltd.* (台州院路公路建設開發有限公司) from December 2004 to July 2011; (ii) general manager of Taizhou Taiji Real Estate Development Co., Ltd.* (台州市台基房地產開發有限公司) from December 2008 to July 2011; and (iii) director of Taizhou Zhongjian Modern Avenue Investment Construction Co., Ltd.* (台州中建現代大道投資建設有限公司) from December 2016 to July 2020.

Mr. Shao will not be entitled to remuneration for acting as a non-executive Director of the Company.

Save as disclosed above, Mr. Shao confirms that: (1) he does not hold any other positions in the Company or any of its subsidiaries and has not served as a director or supervisor in any other listed company in the past three years; (2) he does not have any relationship with any other directors, supervisors, senior management or substantial or controlling shareholders of the Company or any of its subsidiaries; and (3) he does not have any interest in any Shares of the Company within the meaning of Part XV of the SFO as at the Latest Practicable Date.

Save as disclosed above, Mr. Shao confirms that there is no other information that needs to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules, and there are no other matters concerning the appointment of Mr. Shao as a non-executive Director that need to be brought to the attention of the Shareholders.

LETTER FROM THE BOARD

The resolution in respect of the appointment of Mr. Shao as a non-executive Director for the fifth session of the Board will be proposed at the AGM for consideration and approval by the Shareholders. In the event that Mr. Shao is appointed as a non-executive Director at the AGM, the Company will enter into a service agreement with Mr. Shao. Mr. Shao will be subject to retirement and re-election in accordance with the Articles of Association upon expiry of his term of office.

7. PROPOSED ADOPTION OF THE REVISED RULES OF INVESTMENT MANAGEMENT

In order to enhance the Company's management and internal control of its investment, the Board has resolved to amend the current rules of investment management (投資管理制度) and adopt the revised rules of investment management. Details of the revised rules of investment management are set out in Appendix I to this circular. The revised rules of investment management are subject to approval by the Shareholders by way of ordinary resolution at the AGM, and will take effect on the date of approval at the AGM.

8. INFORMATION ABOUT THE PARTIES

The Company

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

Taizhou City Water

Taizhou City Water Co., Ltd.* (台州城市水務有限公司) is a limited liability company established in the PRC and a subsidiary of the Company owned as to 82% by the Company and 18% by Wenling Water Group Co., Ltd.* (溫嶺市水務集團有限公司) as at the Latest Practicable Date. Wenling Water Group Co., Ltd.* (溫嶺市水務集團有限公司) is a limited liability company established in the PRC and is ultimately wholly-owned by the Finance Bureau of Wenling City* (溫嶺市財政局). Taizhou City Water is principally engaged in centralised water production and supply.

Huangyan Reservoir Development

Huangyan Reservoir Development is principally engaged in the construction, operation and management of reservoirs, as well as the sale of raw water, etc. As at the Latest Practicable Date, Huangyan Reservoir Development is an indirect wholly-owned subsidiary of 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), the holding company of Yongning Financial Consulting, which is a substantial Shareholder holding approximately 13.34% of the total issued share capital of the Company. Huangyan Reservoir Development is ultimately wholly-owned by the Finance Bureau of Huangyan District of Taizhou.

LETTER FROM THE BOARD

Zhejiang Yongan

Zhejiang Yongan Water Group Co., Ltd., a limited liability company incorporated under the laws of the PRC, formerly known as Xianju Yongan Water Supply Co., Ltd.* (仙居縣永安水務有限公司) and Xianju Water Treatment Plant* (仙居縣自來水廠), is a state-owned enterprise principally engaged in the management, development and operation of water-related works, such as in relation to raw water, water supply and maintenance of agricultural water pipes, and others works, such as power generation, municipal engineering and sandstone production, among others. Zhejiang Yongan is wholly owned by Xianju Urban Construction Development Group Co., Ltd.* (仙居縣城市建設發展集團有限公司), and is ultimately controlled as to 92% by the Xianju State Assets Work Centre* (仙居縣國資工作中心) and 8% by the Financial Bureau of Zhejiang* (浙江省財政廳).

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, Zhejiang Yongan and its ultimate beneficial owners are Independent Third Parties and not connected with the Group and its connected persons.

9. LISTING RULES IMPLICATIONS

(1) Proposed formation of Joint Venture Company

As all of the applicable percentage ratios as set out in the Listing Rules in respect of the formation of the Joint Venture Company under the Joint Venture Agreement are less than 5%, the entering into of the Joint Venture Agreement does not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules. Nonetheless, according to the Company's rules of investment management (《投資管理制度》), the Company will seek Shareholders' approval in respect of the Joint Venture Agreement and the transaction contemplated thereunder at the AGM.

(2) Huangyan Reservoir Water Supply Framework Agreement

As at the Latest Practicable Date, Huangyan Reservoir Development is an indirect wholly-owned subsidiary of 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), the holding company of Yongning Financial Consulting, which is a substantial Shareholder holding approximately 13.34% of the total issued share capital of the Company. Accordingly, Huangyan Reservoir Development is a connected person of the Company under the Listing Rules.

As one or more of the applicable percentage ratios in respect of the proposed annual caps of the Huangyan Reservoir Water Supply Framework Agreement exceeds 5%, the transactions contemplated under the Huangyan Reservoir Water Supply Framework Agreement are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

The Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in respect of the Huangyan Reservoir Water Supply Framework Agreement and the transactions contemplated thereunder. Honestum International Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Huangyan Reservoir Water Supply Framework Agreement and the transactions contemplated thereunder.

Yongning Financial Consulting and its associates, which hold 26,679,541 Domestic Shares, representing approximately 13.34% of the total issued share capital of the Company as at the Latest Practicable Date, will abstain from voting at the AGM in respect of the resolution to approve the Huangyan Reservoir Water Supply Framework Agreement and the transactions contemplated thereunder.

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 Huangyan Reservoir Water Supply Framework Agreement. As such, no other Shareholders will be required to abstain from voting on the ordinary resolution approving the Huangyan Reservoir Water Supply Framework Agreement and the transactions contemplated thereunder.

10. AGM

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

Whether or not you intend to attend and vote at the AGM, 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 AGM (i.e. before 3:00 p.m. on Thursday, 29 June 2023) or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the AGM or any adjourned meeting should you so wish and in such event the form of proxy shall be deemed to be revoked.

If you intend to attend the AGM 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 Friday, 9 June 2023.

LETTER FROM THE BOARD

11. VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, voting by any Shareholders at a general meeting shall be by way of poll, except where the chairman of the general meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The chairman of the general meeting shall require each of the resolutions proposed at the AGM 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 AGM in the manner as stipulated under Rule 13.39(5) of the Listing Rules.

12. RECOMMENDATION

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

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 21 to 22 of this circular which contains its recommendation to the Independent Shareholders as to voting at the AGM in relation to the Huangyan Reservoir Water Supply Framework Agreement; and (ii) the letter from the Independent Financial Adviser, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Huangyan Reservoir Water Supply Framework Agreement and the principal factors and reasons considered by it in arriving at its opinions.

The text of the letter from the Independent Financial Adviser is set out on pages 23 to 32 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Huangyan Reservoir Water Supply Framework Agreement are on normal commercial terms, fair and reasonable and the transactions contemplated under the Huangyan Reservoir Water Supply Framework Agreement are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the AGM in relation to the consideration and approval of the Huangyan Reservoir Water Supply Framework Agreement.

LETTER FROM THE BOARD

13. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular. In the event of inconsistency, the English text of this circular and the enclosed form of proxy shall prevail over the Chinese text.

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

* *For identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the letter of advice from the Independent Board Committee to the Independent Shareholders in relation to the Huangyan Reservoir Water Supply Framework Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



Taizhou Water Group Co., Ltd.* **台州市水務集團股份有限公司**

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1542)

31 May 2023

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF HUANGYAN RESERVOIR WATER SUPPLY FRAMEWORK AGREEMENT

We refer to the circular dated 31 May 2023 (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 Huangyan Reservoir Water Supply Framework Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Honestum International Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Huangyan Reservoir Water Supply Framework Agreement and the transactions contemplated thereunder.

Details of the advice from Honestum International Limited, together with the principal factors and reasons it has taken into consideration in giving its advice, are set out on pages 23 to 32 of the Circular.

** For identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Your attention is also drawn to the letter from the Board set out on pages 5 to 20 of the Circular and the information set out in Appendix II to the Circular.

Having considered the advice of Honestum International Limited, we are of the opinion that the terms of the Huangyan Reservoir Water Supply Framework Agreement and the transactions contemplated thereunder are fair and reasonable, and such transactions are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the AGM in the terms as set out in the notice of the AGM to approve the Huangyan Reservoir Water Supply Framework Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Independent Board Committee

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



31 May 2023

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF HUANGYAN RESERVOIR WATER SUPPLY FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Huangyan Reservoir Water Supply Framework Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in this circular (the “**Circular**”) dated 31 May 2023 issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

Reference is made to the announcement of the Company dated 31 March 2023 (the “**Announcement**”). On 31 March 2023, the Company and Huangyan Reservoir Development entered into the Huangyan Reservoir Water Supply Framework Agreement for a term commencing on the date of approval by the Shareholders at the general meeting and ending on 31 December 2025 with the proposed annual caps of approximately RMB50.0 million, RMB88.0 million and RMB88.0 million (“**Proposed Annual Caps**”), respectively.

As at the Latest Practicable Date, Huangyan Reservoir Development is an indirect wholly-owned subsidiary of 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), the holding company of Yongning Financial Consulting, which is a substantial Shareholder holding approximately 13.34% of the total issued share capital of the Company. Accordingly, Huangyan Reservoir Development is a connected person of the Company under the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

Yongning Financial Consulting and its associates, which hold approximately 13.34% of the total issued share capital of the Company as at the date of the Circular, will abstain from voting at the AGM in respect of the resolution to approve the Huangyan Reservoir Water Supply Framework Agreement and the transactions contemplated thereunder.

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

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Huang Chun, 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 Huangyan Reservoir Water Supply Framework Agreement and the Proposed Annual Caps are in the ordinary course of business of the Company, on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to give a recommendation to the Independent Shareholders in respect of the voting on the resolution to be proposed at the AGM to approve the Huangyan Reservoir Water Supply Framework Agreement, the transactions contemplated thereunder, including the Proposed Annual Caps. As an Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we, Honestum International Limited, were not aware of any relationships or interests between us and (i) the Group; (ii) Huangyan Reservoir Development; and (iii) 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 Huangyan Reservoir Water Supply Framework Agreement and the transactions contemplated thereunder, including the Proposed Annual Caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In the past two years immediately preceding the Latest Practicable Date, we have acted as the independent financial adviser to the then independent board committee and the then independent shareholders of the Company for the continuing connected transactions (the “**Previous Engagement**”), details of which are set out in the circular of the Company dated 30 September 2021. Under the Previous Engagement, we were required to express our opinion on and give recommendations to the independent board committee and independent shareholders of the Company in relation to the continuing connected transactions. Apart from the independent financial adviser roles in connection with the Previous Engagement and the transactions disclosed in the Circular, we have not acted in any capacity of the Group in the past two years immediately preceding the Latest Practicable Date. 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 arriving at our recommendation, we have relied on the accuracy of the information and representations contained in the prospectus, the annual report of the Group for the year ended 31 December 2022 (the “**2022 Annual Report**”), the Circular and have assumed that all information and representations made or referred to in the Circular as provided by the management (the “**Management**”) of the Company were true, accurate and complete at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the Management regarding the continuing connected transactions including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Management respectively in the Circular were reasonably made after due enquiry and careful consideration. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have no reason to suspect that any material facts or information have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Management. We have not, however, carried out any independent verification of the information provided by the Management, nor have we conducted an independent in-depth investigation into the business and affairs of the Group, Huangyan Reservoir Development or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation with regard to the terms of the Huangyan Reservoir Water Supply Framework Agreement and the transactions contemplated thereunder, including the Proposed Annual Caps, we have taken into account the following principal factors and reasons:

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

1.1 Information on the Company

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

1.2 Information on Huangyan Reservoir Development

Huangyan Reservoir Development is principally engaged in the construction, operation and management of reservoirs, as well as the sale of raw water, etc. As at the Latest Practicable Date, Huangyan Reservoir Development is an indirect wholly-owned subsidiary of Taizhou Huangyan Stateowned 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), the holding company of Yongning Financial Consulting, which is a substantial Shareholder holding approximately 13.34% of the total issued share capital of the Company. Huangyan Reservoir Development is ultimately wholly-owned by the Finance Bureau of Huangyan District of Taizhou.

2. Background of and Reasons for the Huangyan Reservoir Water Supply Framework Agreement

As disclosed in the prospectus and the 2022 Annual Report and based on representation of the Management, all of the water of the Group is drawn from Changtan Reservoir (長潭水庫), the largest reservoir in Taizhou in terms of storage capacity. The raw water will then be transmitted through the Taizhou Water Supply System (Phase I and II) to municipal water service providers or be processed by the Taizhou Water Treatment Plant, and ultimately to end-users. Pursuant to the Minutes of the 16th Executive Meeting of the People's Government of Huangyan District of Taizhou City* (《台州市黃岩區人民政府第16次常務會議紀要》), the administration rights of Changtan Reservoir have been transferred to Huangyan Reservoir Development. In view of the above, on 31 March 2023, the Company entered into the Huangyan Reservoir Water Supply Framework Agreement to continue sourcing raw water from the Changtan Reservoir with Huangyan Reservoir Development. The details of the principal terms of the Huangyan Reservoir Water Supply Framework Agreement are set out under the section headed "Continuing Connected Transaction in Respect of Huangyan Reservoir Water Supply Framework Agreement" in the Letter from the Board.

The Company considers that the Proposed Annual Caps will allow the Group to maintain a stable supply of raw water from the Changtan Reservoir, to cater the changes in the market demands and ensure the Company's income and business growth.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered the above and the respective background information of the Group and Huangyan Reservoir Development, we concur with the Directors' view that the transactions contemplated under the Huangyan Reservoir Water Supply Framework Agreement, including the Proposed Annual Caps, are entered into in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Huangyan Reservoir Water Supply Framework Agreement

Subject matter

Pursuant to the Huangyan Reservoir Water Supply Framework Agreement, Huangyan Reservoir Development agreed to provide raw water supply service to the Group for a term commencing on the date of approval by the Shareholders at the general meeting and ending on 31 December 2025.

Pricing basis

The prices of the sales of raw water supply services provided by Huangyan Reservoir Development to 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 Huangyan Reservoir Water Supply Framework Agreement shall be made every month on the basis of the volume of water supplied by the Group.

Comparison of terms with Independent Third Parties

We have discussed with the representatives of the Group, the pricing basis and payment terms of the Huangyan Reservoir Water Supply Framework Agreement as set out above and the relevant terms under the previous water supply agreement regarding the Changtan Reservoir with Taizhou Huangyan District Changtan Reservoir Affairs Centre. We have also obtained and reviewed sample of raw water supply agreement signed with such independent third party (the "**Sample Contract**") provided by the Group. Having compared the pricing basis for the raw water charged by Huangyan Reservoir Development, with the pricing basis in the Sample Contract and based on the aforementioned discussion with the representatives of the Group, we noted that the same pricing basis is consistently adopted where the unit prices charged are based on the water price determined and approved by Taizhou DRC. Furthermore, in assessing whether the payment term in the water supply agreements with Huangyan Reservoir Development is fair and reasonable, we have reviewed the Sample Contract and noted that the payment term is consistent with those stipulated in the Huangyan Reservoir Water Supply Framework Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

4. The Proposed Annual Caps

Set out below are the historical transaction amounts and the Proposed Annual Caps:

	Year ended/ending on 31 December				
	2021	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Historical transaction amount of raw water supply services from the Changtan Reservoir	79,892	75,678	N/A	N/A	N/A
Proposed Annual Caps	N/A	N/A	50,000	88,000	88,000

We have obtained and reviewed the calculation of the Proposed Annual Caps from the Company and discussed with the representatives of the Group regarding the basis for determining the Proposed Annual Caps. We understand that the Proposed Annual Caps are determined with reference to the Group's projection of purchase and the water supply capacity of Huangyan Reservoir Development from FY2023 to FY2025, the basis of which has taken into consideration of (i) the increasing demand for raw water since the outbreak of the coronavirus pandemic in the PRC in 2020; (ii) the historical transaction amounts of raw water supply services from the Changtan Reservoir for the years ended 31 December 2021 and 2022 provided by the Group; and (iii) the water intake limit stated in the water intake permit (取水許可證).

(i) Increasing demand for raw water

Since the outbreak of the coronavirus in the PRC in January 2020, the Management has observed that there may be a change in the residents' cleaning habits. The general public in Taizhou had become more aware of health and hygiene in order to minimise the chance of contracting the coronavirus, resulting in higher frequency of cleaning in both household and commercial settings in addition to the increase in the water consumption on the personal level, and hence the increase in the of use of water supply. This tendency together with the commencement in operation of the Group's Taizhou Water Supply System (Phase III and Phase IV) in second half of 2022, has resulted and would likely continue to result in a increasing demand for the Group's provision of raw water services and thus the Group's demand in raw water from the Changtan Reservoir. Based on the information provided by the Group, the quantity of raw water purchased from the Changtan Reservoir for the year ended 31 December 2022 increased by approximately 13.6 million cubic meter or approximately 5.0% from 272.9 million cubic meter to 286.5 million cubic meter, as compared to corresponding period in 2021.

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(ii) Historical transaction amounts

Based on our discussion with the representatives of the Group and the financial information in respect of the years ended 31 December 2021 and 2022 provided to us, the purchase amounts of raw water supply services in relation to the Changtan Reservoir for the six months ended 31 December 2022 and for the years ended 31 December 2021 and 2022 were approximately RMB42.7 million, RMB79.9 million and RMB75.7 million, respectively, which accounted for approximately 85.3%, 90.8% and 86.0% of the Proposed Annual Caps for FY2023 and FY2025. Based on the historical water supply statistics provided by the Group, the representatives of the Group advised that the total water purchase for the second half year usually will be higher than first half year, since the water intake for the six months ended 31 December 2022 accounted for approximately 56.4% of the water intake for the whole year of FY2022. As a result, RMB50.0 million has been set as the Proposed Annual Cap for FY2023, which is expected to be sufficient for the second half year for FY2023. As a result, the Directors consider that the Proposed Annual Caps are fair and reasonable and are able meet the Group's requirements for the years ending 31 December 2023 to 2025.

(iii) Water intake limit stated in the water intake permit

According to the approved annual water intake volume stated in the water intake permit, an exclusive right granted by the People's Government, the Group has to draw water from the Changtan Reservoir within the maximum water volume, which currently is 301.2 million cubic meter per year (the "Water Intake Limit") and is fixed with reference to factors including the current water supply capacity and the water demand in Taizhou. Based on the information provided by the Group, the quantity of raw water purchased from the Changtan Reservoir for the six months ended 31 December 2022 and for the years ended 31 December 2021 and 2022 accounted for approximately 53.6%, 90.6% and 95.1% utilisation rate of the current Water Intake Limit. As discussed with the representatives of the Group, the Proposed Annual Caps has taken into consideration of (i) approximately 56.6% utilisation rate of the current Water Intake Limit for second half of FY2023; (ii) approximately 100% utilisation rate of the current Water Intake Limit for FY2024 and FY2025; and (iii) room for any price adjustment to be determined by the Taizhou DRC or any unexpected demand of raw water.

The Directors are of the view that 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 maintain the consumption of water. The Proposed Annual Cap will ensure a stable supply of raw water to the Group in respond to the market demands.

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

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

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 Huangyan Reservoir Water Supply Framework Agreement are in the interests of the Group and the Shareholders as a whole and in the compliance with the Listing Rules:

- (i) The finance department of the Company shall regularly monitor the cap of connected transaction, count the accumulated amounts of transactions with Huangyan Reservoir Development by the end of the month on a monthly basis and report to the Management the unutilised balance of the annual cap by the end of each month, to ensure the applicable annual cap are not exceeded. When the projected transaction amount approaches or reaches the applicable annual cap, 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 Huangyan Reservoir Water Supply Framework Agreement such as water price adjustment as fixed and promulgated by the relevant government authorities;
- (iv) The external auditors of the Group will issue a letter to the Board in relation to the continuing connected transactions, including the transactions under the Huangyan Reservoir Water Supply Framework Agreement, for each financial year in accordance with Rule 14A.56 of the Listing Rules; and

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- (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 Huangyan Reservoir Water Supply Framework Agreement for each financial year, and give confirmation in accordance with Rules 14A.55 and 14A.71 of the Listing Rules.

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

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

We noted from the above the Group has adopted a set of internal control procedures governing the Group's transactions with Huangyan Reservoir Development 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 Huangyan Reservoir Water Supply Framework Agreement. Further, we noted from the 2022 Annual Report that the auditor of the Company has reported on the Group's continuing connected transactions 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 during the years ended 31 December 2022 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 Huangyan Reservoir Water Supply Framework Agreement and safeguard the interests of the Independent Shareholders and the Company as a whole.

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RECOMMENDATION

Having taken into account the factors and reasons as stated above, we consider that the terms of Huangyan Reservoir Water Supply Framework Agreement, including the Proposed Annual Caps, are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the AGM for approving the continuing connected transactions.

Yours faithfully,

For and on behalf of

Honestum International Limited

Michael Chum

Chairman

Jacky Chu

Associate Director

Note: Mr. Michael Chum is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Honestum International Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 25 years of experience in corporate finance industry. Mr. Jacky Chu is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Honestum International Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 10 years of experience in corporate finance industry.

CHAPTER I GENERAL PROVISIONS

Article 1 In order to regulate investment behavior, reduce investment risks, improve investment returns and protect the legitimate rights and interests of the Company and its shareholders, these rules are hereby formulated in accordance with the Company Law of the People's Republic of China (the "Company Law"), the Securities Law of the People's Republic of China (the "Securities Law"), the Law of the People's Republic of China on the State-Owned Assets of Enterprises (the "Law on State-Owned Assets"), the Interim Regulation on the Supervision and Administration of State-owned Assets of Enterprises and other laws and administrative regulations, and pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), taking into account the Articles of Association and other corporate institutions of the Company.

Article 2 The investment herein refers to the investment activities such as investment in fixed assets, equity investment and financial investment engaged by the Company within and outside China.

- (I) "Investment in fixed assets" refers to investments in which future earnings flow to the Company and which result in fixed assets, mainly including infrastructure investment, technological renovation projects and acquisition of real estate, etc.
- (II) "Equity investment" refers to equity investments in other enterprises by various forms of capital contributions.
- (III) "Financial investment" refers to investments in equities, bonds, foreign exchange, insurance and other financial operations for the purpose of earning financial returns on investments.

These rules apply to the above-mentioned investment activities carried out by the funds in the form of limited partnerships established by the Company solely or jointly with actual control in accordance with laws, as well as subsidiaries and branches of Company at all levels.

Article 3 The Company's investments shall follow the following principles:

- (I) Following strategies and focusing on main business. Investments should serve the development strategy of the Company, be in line with the development plan of the Company, and shall focus on the main business. The Company shall strictly control investments in non-main businesses and not invest in projects included in the negative list;

- (II) Complying with the law and insisting on equal rights and responsibilities. Investments should be in line with national industrial policies, comply with national laws and regulations, business rules and cultural customs as well as those of the countries (regions) where the investment is made, and fulfil investment decision-making, filing and approval procedures; for projects with diversified investors, the Company should insist on simultaneous capital contribution and same rights for same shares;
- (III) Making investments appropriate to capabilities and controlling risks strictly. The scale of investment should be commensurate with the capital strength, financing capacity, industry experience, management level and risk resistance of the Company. The Company shall strengthen project management and do a good job of risk assessment, monitoring and prevention plans to prevent losses of state-owned assets.

Article 4 The main businesses herein refer to the main businesses determined by the Company's development strategy and planning and confirmed by the Municipal State-owned Assets Supervision and Administration Commission, while non-main businesses refer to other businesses other than the Company's main businesses.

Article 5 If the investment activities also constitute connected transactions, the regulations of the Hong Kong Stock Exchange on connected transactions and the "Management Rules of Connected Transactions of Taizhou Water Group Co., Ltd." should also be complied with.

CHAPTER II INVESTMENT MANAGEMENT BODY AND ITS RESPONSIBILITIES

Article 6 The Strategic Investment Department is the lead coordinating department for the Company's investment management and is responsible for the overall management of the Company's investment projects. Specific investment projects are assigned to the business counterparts as the responsible departments for investment. The responsible departments for investments are responsible for formulating investment plans and schemes; conducting preliminary feasibility studies, benefit analysis and evaluation of investment projects, formulating capital budgets and project financial data, etc.; submitting decision-making materials; collating and summarising various documents and materials of investment projects and submitting them to the Strategic Investment Department for record at the same time; and following up on post-investment management matters. The Strategic Investment Department proposes amendments and supplemental suggestions to the content of the draft project proposal or feasibility study report submitted by the department responsible for the investment project; it is responsible for direct submission or coordinating the submission of investment decision-making materials by the department responsible for the project; and it implements post-investment management.

Article 7 If the Board or the Strategy Committee of the Board or the General Manager's Office proposes an investment project, the general manager will arrange for the department responsible for investment to investigate the investment project and prepare a research report, and submit the investigation results to the Strategic Investment Department for review. The Strategic Investment Department reports directly or coordinates the reporting by the departments responsible for investment to the Party Committee, the General Manager's Office, the Board and the general meeting based on the investment rules and investment decision-making authority. For projects that require approval, filing or reporting to SASAC or government departments, the Strategic Investment Department will prepare reporting materials and submit them directly or coordinate such work to be undertaken by the department responsible for investment.

CHAPTER III INVESTMENT DECISION-MAKING AUTHORITY

Article 8 The investment decision-making of the Company shall follow the approval procedures in strict compliance with the authority stipulated in the Company Law and other relevant laws and regulations, the Listing Rules and the Articles of Association, etc. The power in approving investment projects shall be exercised by the shareholders in general meeting, the Board, the chairman and the general manager of the Company in accordance with the authority.

Article 9 Investment authority

- (I) The following matters shall be considered and approved by the Board and then submitted to the general meeting for consideration and approval:
1. the purchase or sale of material assets or guarantees by the Company within one year exceeding 30% of the total assets of the Company's latest audited consolidated statement;
 2. where the relevant investment transaction is a major transaction, a very substantial disposal, a very substantial acquisition or a reverse takeover action as calculated under the requirements of Chapter 14 of the Listing Rules;
 3. any connected transaction other than connected transactions exempted from the requirements under Chapter 14A of the Listing Rules and connected transactions exempted from the requirement to hold a general meeting;
 4. any other investment matters exceeding the authority of the Board, which shall be considered and approved by the Board and submitted to the general meeting for consideration and approval.

If the data involved in the above indicators are negative, their absolute values would be taken for calculation.

- (II) The following investment matters shall be considered and approved by the Board and shall be considered and approved by the Strategy Committee of the Board prior to submission to the Board:
1. Financial investment;
 2. Total assets involved in the investment transactions (in accordance with the latest audited financial statements or appraisal report) is higher than RMB10 million or higher than 5% of the Company's latest audited net asset value but lower than 10% of the Company's latest audited net asset value, and the absolute value of net profit or loss related to the assets involved in the investment transactions (in accordance with the latest audited financial statements or appraisal report) is lower than the 10% of the Company's audited net profit for the previous year; for equity investment projects (i.e. equity investment in other enterprises by various forms of capital contribution), the net profit or loss of the funded enterprise is calculated using the net profit or loss associated with relevant equity (the same below);
 3. Total assets involved in the investment transactions (in accordance with the latest audited financial statements or appraisal report) is higher than 1% of the Company's latest audited net asset value but lower than 5% of the Company's latest audited net asset value, and the absolute value of the net profit or loss related to the assets involved in the investment transactions (in accordance with the latest audited financial statements or appraisal report) is higher than 5% of the Company's audited net profit for the previous year;
 4. Single external investment (excluding financial investment) with an amount higher than RMB10 million or higher than 5% of the Company's latest audited net asset value but lower than 10% of the Company's latest audited net asset value;
 5. Single infrastructure investment project or technological renovation project with an amount higher than RMB10 million or higher than 5% of the Company's latest audited net asset value but lower than 10% of the Company's latest audited net asset value;
 6. Single real estate acquisition project with an amount higher than RMB2 million;
 7. Investment matters that, although falling within the scope of authorization of the Board, the chairman believes should be submitted to the Board for decision.

If the data involved in the above indicators are negative, their absolute values would be taken for calculation.

(III) The following investment matters are authorized by the Board to be decided by the chairman:

1. Total assets involved in the investment transactions (in accordance with the latest audited financial statements or appraisal report) is higher than 1% and less than 5% of the latest audited net assets of the Company (up to a maximum of RMB10 million; investment projects exceeding RMB10 million shall be submitted to the Board for consideration and approval after considered and approved by the Strategy Committee of the Board), and the absolute value of the net profit or loss related to the assets of the investment transactions (in accordance with the latest audited financial statements or appraisal report) is less than 5% of the Company's audited net profit for the previous year;
2. Total assets involved in the investment transactions (in accordance with the latest audited financial statements or appraisal report) is less than 1% of the Company's latest audited net assets, and the absolute value of the net profit or loss related to the assets of the investment transactions (in accordance with the latest audited financial statements or appraisal report) is higher than 2% of the Company's audited net profit for the previous year;
3. Single external investment (excluding financial investment) with an amount higher than RMB2 million and less than 5% of the Company's latest audited net asset value (up to a maximum of RMB10 million);
4. Single infrastructure investment project or technological renovation project with an amount higher than RMB2 million and less than 5% of the Company's latest audited net asset value (up to a maximum of RMB10 million);
5. Single real estate acquisition project with an amount higher than RMB0.2 million and less than RMB2 million (including RMB2 million).

Within 5 days from the date of occurrence of the investment matters in 1, 2, 3 and 4 above, the chairman shall report the basic information of the investment matters to the Board for record.

If the data involved in the above indicators are negative, their absolute values would be taken for calculation.

(IV) The following investment matters are authorized by the Board to be decided by the general manager:

1. Total assets involved in the investment transactions (in accordance with the latest audited financial statements or appraisal report) is less than 1% of the Company's latest audited net assets (up to a maximum of RMB4 million; for investment transactions exceeding RMB4 million, the general manager shall draw up a plan and submit it to the chairman for approval), and the absolute value of net profit or loss related to the assets of the investment transactions (in accordance with the latest audited financial statements or appraisal report) is less than 2% of the Company's audited net profit for the previous year;
2. Single external investment (excluding financial investment) with an amount less than RMB2 million;
3. Single infrastructure investment project or technological renovation project with an amount less than RMB2 million;
4. Single real estate acquisition project with an amount less than RMB0.2 million (including RMB0.2 million).

Within 5 days from the date of occurrence of investment facts in 1, 2 and 3 above, the general manager shall report the basic information of investment matters to the Board for record.

If the data involved in the above indicators are negative, their absolute values would be taken for calculation.

Article 10 Investment projects involving the approval of the relevant government departments shall go through the relevant approval procedures.

Article 11 After the investment project is approved, the finance department shall handle the relevant financial procedures according to the prescribed authority.

CHAPTER IV IMPLEMENTATION AND MANAGEMENT OF INVESTMENT PROJECTS

Article 12 Before and during the implementation of an investment project, the Company may establish a project team and designate a project leader to be fully responsible for the specific implementation of the project. The project team and the project leader shall liaise with the Strategic Investment Department and report the progress of the project on a regular basis. The project team/project leader shall be responsible for understanding and fully investigating the investment project to provide the basis for the Company to carry out its internal decision-making process. The investigation shall at least include:

- (I) whether the investment project conforms to the Company's investment principles and overall planning;
- (II) financial analysis of the investment project;
- (III) on-site inspection and targeted investigation of the investment project (such as the implementation of major financial plans, research and development plans, market plans, etc.);
- (IV) analyse and collate the operating data of the investment project;
- (V) discussion and negotiation with relevant parties on the agreement documents or core terms related to the investment project;
- (VI) preparation of project proposal or feasibility study report for internal reporting purposes based on the investigation, the contents of which shall at least include the aforementioned investigation.

For additional investment in the Company's existing projects, government-designated projects or projects that cannot complete all inspections in a timely manner based on actual conditions, the scope of investigation can be adjusted based on actual conditions.

Article 13 If the following situations occur upon completion of the internal decision-making process for an investment project, the internal decision-making process shall be re-executed according to the internal decision-making authority:

- (I) the investment is not completed within the approved or agreed deadline after the internal decision is passed and needs to be continued;
- (II) the change in the investment amount exceeds over 20%;
- (III) significant breach of contract by the cooperating party;
- (IV) the investment risk is aggravated or the investment purpose cannot be realized due to any uncontrollable factors.

Non-material changes other than those mentioned above shall be reviewed by the responsible departments for investments and reported to the chairman of the Company for approval.

Article 14 Upon completion of the internal decision-making process of the investment project, the responsible departments for investments/project team/project leader should follow up the specific implementation of the project, including signing the relevant contract or any other documents, coordinating with the financial department on the arrangement of fund payments, registering companies, completing fund payments, collecting investment information and files, registering state-owned property rights, transferring property rights, etc.

Article 15 The Company implements the principle of “using funds as earmarked and regular reporting” for project funds. During the implementation of the project, the responsible departments for investments/project team/project leader shall regularly explain the use and payment of funds, formulate plans for the use of funds (monthly and quarterly fund-using plans) and payment plans, and submit such plans to the financial department of the Company in due time, to enable the financial department to make overall arrangements and ensure the smooth implementation of the investment project.

Article 16 The responsible departments for investments/project team/project leader shall be responsible for the continuous supervision and inspection of the progress of the project, and timely report any abnormal situation. According to the decision-making situation of the project and in combination with the specific circumstances, the general meeting, the Board, the chairman or the general manager shall make the decision of project continuation, suspension, rectification or cancellation, etc.

Article 17 Upon completion of the project, acceptance (by means of appraisal, summary and operation, etc.) shall be carried out in a timely manner. When necessary, the Company’s audit department shall conduct a comprehensive audit of the project; upon acceptance, the responsible departments for investments shall complete the project report, summary and settlement within one month.

Article 18 Upon project acceptance, the responsible departments for investments shall submit the following documents and materials and keep them on file:

- (I) project proposal;
- (II) internal decision-making documents;
- (III) project approval documents (feasibility reports, project approval replies, etc.);
- (IV) contract documents, project documents and project communication materials;
- (V) investigation or consultation reports issued by relevant intermediary(ies);
- (VI) certificates of title, qualification certificates or any project ownership document or business license document;

(VII) physical photographs, etc.;

(VIII) project summary and acceptance documents;

(IX) other documents that should be filed.

Article 19 After the investment project is put into formal operation, the Strategic Investment Department and the responsible departments for investments shall be responsible for timely collecting and reporting the following matters to the chairman and general manager, respectively, for record:

- (I) main data of the quarterly financial statements of the invested enterprise;
- (II) analysis of the business trends and financial and operational conditions of the invested enterprise;
- (III) annual audit reports of the invested enterprise;
- (IV) amendments to the general terms of contracts and articles (without involving rights and obligations);
- (V) other non-material matters.

Article 20 For major matters of the invested enterprise, the Company shall exercise corresponding powers through shareholder representatives and delegated directors, supervisors, etc. to embody the Company's rights and interests.

Article 21 Directors (candidates) and supervisors (candidates) of the Company's wholly-owned or non-wholly-owned subsidiaries shall be appointed, recommended or replaced by the Board and the chairman, respectively, according to the investment authority. For projects where managerial personnel need to be appointed, such managerial personnel shall be appointed, recommended or replaced by the general manager according to the investment authority.

Article 22 The financial department of the Company shall set up detail ledger for each external investment and record it in detail. The investment department of the Company shall keep detailed records of investment form, direction, plan and income.

Article 23 The Company regularly organizes internal auditors or other personnel not involved in investment business to verify the Company's investment projects and compile verification reports. The internal audit of subsidiaries shall be carried out in accordance with the relevant regulations of the Company.

Article 24 The Company shall strengthen the risk management in the whole process of investment, give play to the reasonable function of each department to realize the full coverage of the supervision over the process of enterprise investment activities, so as to timely discover investment risks and reduce investment losses.

Article 25 In the following circumstances, the Company shall dispose of its projects accordingly to prevent the loss of state-owned assets, and the responsible departments for investments/project team/project leader shall follow up and propose a disposal plan in a timely manner, and submit it to the manager's office meeting, the Board or general meeting of the Company for resolution as the circumstances may require:

- (I) it is impossible or no longer possible to continue the operation at the end of the term of the investment;
- (II) the investment project has become insolvent;
- (III) the investment project cannot be continued for any reason;
- (IV) the investment project has no market prospect and cannot achieve the investment purpose of the Company;
- (V) other circumstances considered by the Company.

Article 26 If any personnel of the Company fails to perform or erroneously perform his/her duties during the process of an investment project, he/she shall be held accountable in accordance with the Opinions of the General Office of the State Council on the Establishment of the Investment Accountability System for Illegal Operations of State-owned Enterprises* (《國務院辦公廳關於建立國有企業違規經營投資責任追究制度的意見》), the Notice of Zhejiang Provincial State-owned Assets Supervision and Administration Commission on Matters related to Promoting the Construction of the Investment Accountability System for Illegal Operations of Local State-owned Enterprises* (《浙江省國資委關於推進地方國資國企違規經營投資責任追究工作體系建設有關事項的通知》), the Implementation Measures for the Investment Responsibility Investigation on Illegal Operations of State-owned Enterprises in Taizhou (Trial)* (《台州市屬國有企業違規經營投資責任追究實施辦法(試行)規定》) and other provisions as well as the Investment Accountability Management System for Illegal Operations of Taizhou Water Group Co., Ltd.* (《台州市水務集團股份有限公司違規經營投資責任追究管理制度》).

CHAPTER V SUPPLEMENTARY PROVISIONS

Article 27 All references to "over" and "under" in these rules shall include the stated figure.

Article 28 These rules will be duly implemented after being considered and approved at the general meeting. Except for the Articles of Association, Rules of Procedures for the General Meeting and Rules of Procedures for the Board of Directors, any other rules and regulations of the Company that conflicts with these rules shall be subject to these rules.

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 for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (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 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. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the Latest Practicable date, the following persons (not being a Director, Supervisor and chief executive of the Company) had interests or short positions in the Shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	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 (%)
Taizhou State-owned Capital Operation Group Co., Ltd.* ⁽²⁾	Interest in controlled corporation	Domestic Shares	43,250,855	28.83%	21.63%
Taizhou Urban Construction and Investment Development Group Co., Ltd.* ⁽²⁾	Beneficial owner	Domestic Shares	43,250,855	28.83%	21.63%
The Finance Bureau of Huangyan District of Taizhou* ⁽³⁾	Interest in controlled corporation	Domestic Shares	26,679,541	17.79%	13.34%
Taizhou Huangyan State-owned Capital Investment Operation Group Co., Ltd.* ⁽³⁾	Interest in controlled corporation	Domestic Shares	26,679,541	17.79%	13.34%
Zhejiang Yongning Financial Consulting Co., Ltd.* ⁽³⁾	Beneficial owner	Domestic Shares	26,679,541	17.79%	13.34%

Name of Shareholder	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 (%)
Taizhou Finance Bureau of Jiaojiang District ^{*(4)}	Interest in controlled corporation	Domestic Shares	22,222,893	14.82%	11.11%
Taizhou Jiaojiang Infrastructure Investment Company ^{*(4)}	Beneficial owner	Domestic Shares	22,222,893	14.82%	11.11%
Zhejiang International Business Group Co., Ltd. ⁽⁵⁾	Interest in controlled corporation	Domestic Shares	20,116,677	13.41%	10.06%
Zhejiang Zheshang Asset Management Co., Ltd. ^{*(5)}	Interest in controlled corporation	Domestic Shares	20,116,677	13.41%	10.06%
Taizhou State-owned Assets Investment Group Co., Ltd. ^{*(5)}	Interest in controlled corporation	Domestic Shares	20,116,677	13.41%	10.06%
Zhejiang Taixin Asset Management Co., Ltd. ^{*(5)}	Beneficial owner	Domestic Shares	20,116,677	13.41%	10.06%
Taizhou Luqiao Public Assets Investment Management Group Co., Ltd.*	Beneficial owner	Domestic Shares	17,613,358	11.74%	8.81%
Qufeng Holdings Limited ^{*(6)}	Beneficial owner	Domestic Shares	10,058,338	6.71%	5.03%
Mr. Yang Yide ⁽⁶⁾	Interest in controlled corporation	Domestic Shares	10,058,338	6.71%	5.03%
Shanghai Yushen Enterprise Management Consulting Co., Ltd. ^{*(7)}	Interest in controlled corporation	Domestic Shares	10,058,338	6.71%	5.03%
Shanghai Lipin Sanmin Culture Communication Co., Ltd. ^{*(7)}	Beneficial owner	Domestic Shares	10,058,338	6.71%	5.03%
Mr. Lin Maoyuan ⁽⁷⁾	Interest in controlled corporation	Domestic Shares	10,058,338	6.71%	5.03%

Name of Shareholder	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 (%)
Shanghai Industrial Investment (Holdings) Company Limited ⁽⁸⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
Shanghai Industrial Investment Treasury Company Limited ⁽⁸⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
Shanghai Investment Holdings Limited ⁽⁸⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
Shanghai Industrial Holdings Limited ⁽⁸⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
S.I. Infrastructure Holdings Limited ⁽⁸⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
S.I. Triumph Power Limited ⁽⁸⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
SIIC Environment Holdings Ltd. ⁽⁸⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
SIIC Environment Tech (Hong Kong) Limited ⁽⁸⁾	Interest in controlled corporation	H Shares	12,500,000	25.00%	6.25%
Shanghai Yangtze River Delta Water Environment Investment Fund Limited ⁽⁸⁾	Beneficial owner	H Shares	12,500,000	25.00%	6.25%
Mr. Chung Chi Man ⁽⁹⁾	Interest in controlled corporation	H Shares	11,999,000	23.99%	6.00%
Billion Shine International Investment Limited ⁽⁹⁾	Interest in controlled corporation	H Shares	11,999,000	23.99%	6.00%
Innovax Holdings Limited ⁽⁹⁾	Interest in controlled corporation	H Shares	11,999,000	23.99%	6.00%
Ms. Lee Yin Har ⁽¹⁰⁾	Interest of spouse	H Shares	11,999,000	23.99%	6.00%

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares held ⁽¹⁾	Approximate	Approximate
				percentage of shareholding in the class of Shares in issue (%)	percentage of shareholding in the total number of Shares in issue (%)
Orient Fund Management Co., Ltd.*	Trustee	H Shares	4,860,000	9.72%	2.43%
PING AN TRUST CO. LTD.	Trustee	H Shares	3,616,000	7.23%	1.81%

* For identification purpose only

Notes:

- (1) As at the Latest Practicable Date, the Company had issued an aggregate of 200,000,000 Shares, including 150,000,000 Domestic Shares and 50,000,000 H Shares.
- (2) Taizhou Urban Construction and Investment Development Group Co., Ltd. is ultimately wholly-owned by Taizhou State-owned Capital Operation Group Co., Ltd. By virtue of the SFO, Taizhou State-owned Capital Operation Group Co., Ltd. is deemed to have an interest in the Domestic Shares held by Taizhou Urban Construction and Investment Development Group Co., Ltd..
- (3) Zhejiang Yongning Financial Consulting Co., Ltd. is a state-owned enterprise indirectly wholly-owned by the Finance Bureau of Huangyan District of Taizhou through its wholly-owned subsidiary, Taizhou Huangyan State-owned Capital Investment Operation Group Co., Ltd. By virtue of the SFO, each of the Finance Bureau of Huangyan District of Taizhou and Taizhou Huangyan State-owned Capital Investment Operation Group Co., Ltd. is deemed to have an interest in the Domestic Shares held by Zhejiang Yongning Financial Consulting Co., Ltd.
- (4) Taizhou Jiaojiang Infrastructure Investment Company is a state-owned enterprise wholly-owned by the Taizhou Finance Bureau of Jiaojiang District. By virtue of the SFO, the Taizhou Finance Bureau of Jiaojiang District is deemed to have an interest in the Domestic Shares held by Taizhou Jiaojiang Infrastructure Investment Company.
- (5) Zhejiang Taixin Asset Management Co., Ltd. is held as to (i) 40% by Taizhou State-owned Assets Investment Group Co., Ltd., a company wholly owned by Taizhou State Owned Capital Operation Group Co., Ltd.; and (ii) 60% by Zhejiang Zheshang Asset Management Co., Ltd., which is in turn owned as to approximately 58.64% by Zhejiang International Business Group Co., Ltd., respectively. By virtue of the SFO, each of Taizhou State-owned Assets Investment Group Co., Ltd., Zhejiang Zheshang Asset Management Co., Ltd., Taizhou State Owned Capital Operation Group Co., Ltd., and Zhejiang International Business Group Co., Ltd., is deemed to have an interest in the Domestic Shares held by Zhejiang Taixin Asset Management Co., Ltd.
- (6) Qufeng Holdings Limited is owned as to 80% by Mr. Yang Yide. By virtue of the SFO, Mr. Yang Yide was deemed to have an interest in the Shares held by Qufeng Holdings Limited.
- (7) Shanghai Lipin Sanmin Culture Communication Co., Ltd. is held as to 10% by Mr. Ying Lan and 90% by Shanghai Yushen Enterprise Management Consulting Co., Ltd., which is in turn wholly owned by Mr. Lin Maoyuan. By virtue of the SFO, each of Shanghai Yushen Enterprise Management Consulting Co., Ltd. and Mr. Lin Maoyuan is deemed to be interested in the Domestic Shares held by Shanghai Lipin Sanmin Culture Communication Co., Ltd.

- (8) Shanghai Yangtze River Delta Water Environment Investment Fund Limited is held as to 40% by SIIC Environment Tech (Hong Kong) Limited, which is in turn wholly-owned by SIIC Environment Holdings Ltd. SIIC Environment Holdings Ltd is held as to 6.36% by S.I. Infrastructure Holdings Limited and as to 37.92% by S.I. Triumph Power Limited, which is in turn wholly-owned by S.I. Infrastructure Holdings Limited. S.I. Infrastructure Holdings Limited is wholly-owned by Shanghai Industrial Holdings Limited, which is in turn owned as to 55.13% by Shanghai Investment Holdings Limited. Shanghai Investment Holdings Limited is wholly-owned by Shanghai Industrial Investment Treasury Company Limited, which is in turn wholly-owned by Shanghai Industrial Investment (Holdings) Company Limited. By virtue of the SFO, SIIC Environment Tech (Hong Kong) Limited, SIIC Environment Holdings Ltd, S.I. Triumph Power Limited, S.I. Infrastructure Holdings Limited, Shanghai Industrial Holdings Limited, Shanghai Investment Holdings Limited, Shanghai Industrial Investment Treasury Company Limited and Shanghai Industrial Investment (Holdings) Company Limited are deemed to have an interest in the H Shares held by Shanghai Yangtze River Delta Water Environment Investment Fund Limited.
- (9) Innovax Holdings Limited is owned as to 75% by Billion Shine International Investment Limited, which is wholly-owned by Mr. Chung Chi Man.
- (10) Ms. Lee Yin Har is the spouse of Mr. Chung Chi Man. By virtue of the SFO, Ms. Lee Yin Har is deemed to be interested in all the H Shares held by Mr. Chung Chi Man.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any other persons (other than the Directors, Supervisors or chief executives of the Company) who had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register required to be kept by the Company pursuant to Section 336 of the SFO.

4. DIRECTORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, each of the following Directors is a director or employee in the following companies, each of which has an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

- (i) Mr. Lin Genman, a non-executive Director of the Company, is a manager of the finance and treasury department and an employee director of Taizhou Urban Construction and Investment Development Group Co., Ltd.* (台州市城市建設投資發展集團有限公司);
- (ii) Mr. Ye Xiaofeng, a non-executive Director of the Company, is a party committee member and deputy general manager of Taizhou Luqiao Public Assets Investment Management Group Co., Ltd. ("**Taizhou Luqiao Public Assets**"). He is also the director of Taizhou Luqiao District State-owned Assets Investment Holding Co., Ltd.* (台州市路橋區國有資產投資控股有限公司), the sole shareholder of Taizhou Luqiao Public Assets;
- (iii) Mr. Yang Yide, a non-executive Director, is a director of Qufeng Holdings Limited; and

- (iv) Mr. Lin Yang, a non-executive Director of the Company, is the general manager and party branch member (黨支部委員) of Zhejiang Taixin Asset Management Co., Ltd.* (浙江台信資產管理有限公司).

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

As at the Latest Practicable Date, none of the Directors and the Supervisors had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2022, being the date to which the latest published audited accounts of the Company were made up.

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

6. DIRECTORS' SERVICE CONTRACT

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

7. INTEREST OF DIRECTORS IN COMPETING BUSINESS

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

8. 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 2022, being the date to which the latest published audited consolidated accounts of the Group were made up.

9. LITIGATION

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

10. EXPERT'S QUALIFICATIONS AND CONSENTS

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

Expert	Qualification
Honestum International Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Honestum International 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, Honestum International Limited (i) did not have any interest, either directly or indirectly, in any assets which had been, since 31 December 2022, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group; and (ii) did not have any shareholding interests in any member of the Group and it did not have any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of any members of the Group.

11. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the members of the Group within two years immediately preceding the Latest Practicable Date and are, or maybe, material:

- (a) equity transfer agreement dated 15 July 2021 entered into between the Company, China Agricultural Development Key Construction Fund Co., Ltd.* (中國農發重點建設基金有限公司) and Taizhou Zhuxi Reservoir Development Co., Ltd.* (台州市朱溪水庫開發有限公司) ("**Zhuxi Reservoir Development**") in respect of the acquisition of equity interest in Zhuxi Reservoir Development by the Company; and
- (b) equity transfer agreement dated 1 September 2021 entered into between the Company, Taizhou Huangyan Water Conservancy Development Group Co., Ltd.* (台州市黃岩水利發展集團有限公司) and Taizhou Huangyan Urban and Rural Water Supply Co., Ltd.* (台州市黃岩城鄉自來水有限公司) ("**Huangyan Water Supply**") in respect of the acquisition of 45% equity interest in Huangyan Water Supply by the Company.

12. MATERIAL ACQUISITION

Since 31 December 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to the Latest Practicable Date, no member of the Group had acquired, or agreed to acquire, or is proposing to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the auditors' report or next published consolidated financial statements of the Group.

13. MISCELLANEOUS

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

14. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Company (www.zjtwater.com) and the Stock Exchange (www.hkexnews.hk) for display for a period of not less than 14 days before the date of the AGM and will be made available for inspection at the AGM:

- (a) the letter from the Independent Board Committee, the text of which is set out on pages 21 to 22 of this circular;
- (b) the letter from Honestum International Limited to the Independent Shareholders, the text of which is set out on pages 23 to 32 of this circular; and
- (c) the Huangyan Reservoir Water Supply Framework Agreement.

NOTICE OF AGM



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 AGM

NOTICE IS HEREBY GIVEN that the annual general meeting (the “AGM”) of Taizhou Water Group Co., Ltd.* (台州市水務集團股份有限公司) (the “Company”) will be held at Conference Room, Taizhou Water Group Co., Ltd., No. 308 Yin Quan Road, Xicheng Street, Huangyan District, Taizhou, Zhejiang Province, the PRC at 3:00 p.m. on Friday, 30 June 2023 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 31 May 2023.

ORDINARY RESOLUTIONS

1. To consider and approve the report of the board of directors of the Company (the “Board”) for the year ended 31 December 2022;
2. To consider and approve the report of the supervisory committee of the Company for the year ended 31 December 2022;
3. To consider and approve the auditor’s report, audited financial statements and annual report of the Company for the year ended 31 December 2022;
4. To consider and approve the final financial accounts for the year ended 31 December 2022 and the financial budget for the year ending 31 December 2023;
5. To consider and approve the Company’s profit distribution plan and declaration of final dividend for the year ended 31 December 2022;
6. To consider and approve the re-appointment of Ernst & Young as the international auditor of the Company to hold office until the conclusion of the next annual general meeting of the Company, and to authorise the Board to fix its remuneration;

* For identification purposes only

NOTICE OF AGM

7. To consider and approve the re-appointment of Pan-China Certified Public Accountants LLP as the domestic auditor of the Company to hold office until the conclusion of the next annual general meeting of the Company, and to authorise the Board to fix its remuneration;
8. To consider and, if thought fit, to pass, with or without modifications, the following resolution of the Company as an ordinary resolution:

“THAT

- (a) the joint venture agreement dated 19 April 2023 (the **“Joint Venture Agreement”**) (a copy of which is tabled at the meeting and marked “A” and initialed by the chairman of the meeting for identification purpose) entered into between the Company and Zhejiang Yongan Water Group Co., Ltd.* (浙江永安水務集團有限公司) in relation to the formation of a joint venture company and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and
 - (b) any one or more director(s) of the Company be and is/are hereby authorised to do all such acts and things, to sign and execute all such documents as he/she/they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Joint Venture Agreement and the transactions contemplated thereunder, and to make and agree to make such variations of the terms of the Joint Venture Agreement as he/she/they may in his/her/their discretion consider to be appropriate, necessary or desirable and in the interests of the Company and its shareholders as a whole”;
9. To consider and, if thought fit, to pass, with or without modifications, the following resolution of the Company as an ordinary resolution:

“THAT

- (a) the agreement dated 31 March 2023 (the **“Huangyan Reservoir Water Supply Framework Agreement”**) (a copy of which is tabled at the meeting and marked “B” and initialed by the chairman of the meeting for identification purpose) entered into between the Company and Huangyan Reservoir Development Operation Co., Ltd.* (台州市黃岩水庫開發經營有限公司) (**“Huangyan Reservoir Development”**) in relation to the provision of raw water by Huangyan Reservoir Development to the Company and its subsidiaries and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;

NOTICE OF AGM

- (b) the proposed annual caps for the three years ending 31 December 2025 in relation to the transactions contemplated under the Huangyan Reservoir Water Supply Framework Agreement be and are hereby approved, confirmed and ratified; and
 - (c) any one or more director(s) of the Company be and is/are hereby authorised to do all such acts and things, to sign and execute all such documents as he/she/they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Huangyan Reservoir Water Supply Framework Agreement and the transactions contemplated thereunder, and to make and agree to make such variations of the terms of the Huangyan Reservoir Water Supply Framework Agreement as he/she/they may in his/her/their discretion consider to be appropriate, necessary or desirable and in the interests of the Company and its shareholders as a whole”;
10. To consider and approve the appointment of Mr. Shao Aiping as a non-executive director of the Company; and
11. To consider and approve the adoption of the revised rules of investment management.

SPECIAL RESOLUTION

12. To consider and approve the provision of guarantees by the Company to Taizhou City Water Co., Ltd.* (台州城市水務有限公司) under certain facilities with the relevant banks in an aggregate amount of not more than RMB400 million.

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

Taizhou, the PRC
31 May 2023

Notes:

1. For details of the resolutions to be approved in this AGM, please refer to the circular.
2. The register of members of the Company will be closed from Wednesday, 31 May 2023 to Friday, 30 June 2023 (both days inclusive), during which period no transfer of Shares will be effected. In order to be qualified to attend and vote at the AGM, 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 Tuesday, 30 May 2023.

* For identification purposes only

NOTICE OF AGM

The Board has recommended the payment of a final dividend of RMB0.075 (tax inclusive) per Share for the year ended 31 December 2022 to Shareholders whose names appear on the Company's register of members on Wednesday, 12 July 2023 (the "**Proposed Final Dividend**").

For the purpose of determination of the list of Shareholders who shall be entitled to obtain the Proposed Final Dividend, subject to the approval of the Shareholders at the AGM, the register of members of the Company will be closed from Thursday, 6 July 2023 to Wednesday, 12 July 2023 (both days inclusive), during which period no transfer of Shares will be effected. In order to be qualified to obtain the Proposed Final Dividend, 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 Wednesday, 5 July 2023.

3. Shareholders who are entitled to attend and vote at the AGM 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. 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 AGM (i.e. before 3:00 p.m. on Thursday, 29 June 2023). 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 AGM or any adjourned meetings should you so wish.
6. Shareholders shall show their identity papers when attending the AGM. 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 AGM. 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 AGM, 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 AGM should complete and return the reply slip in writing by hand or by post to the H Share registrar of the Company, namely Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for holders of H Shares) or the registered office of the Company in the PRC (for holders of Domestic Shares) before Friday, 9 June 2023.
9. The AGM is expected to take less than half a day, Shareholders who attend the AGM 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

NOTICE OF AGM

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
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.