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Taizhou Water Group Co., Ltd.*

台州市水務集團股份有限公司

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

(Stock Code: 1542)

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

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO
THE ACQUISITION**

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

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

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

(2) FURTHER REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

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

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

On 1 September 2021, the Company and Huangyan Water Supply entered into the Second Supplemental 2019 Huangyan Water Supply Framework Agreement, pursuant to which the parties agreed to revise the Original Huangyan Annual Cap.

On 1 September 2021, the Company and Taizhou Luqiao Water Supply entered into the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement, pursuant to which the parties agreed to revise the Original Taizhou Luqiao Raw Water Annual Cap.

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

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

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

(3) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Reference is made to the section headed "Connected Transactions" in the Prospectus in relation to, among other things, the 2019 Huangyan Water Supply Framework Agreement, the 2019 Wenling Water Supply Framework Agreement and the 2019 Yuhuan Water Supply Framework Agreement. As the term of each of the 2019 Huangyan Water Supply Framework Agreement, the 2019 Wenling Water Supply Framework Agreement and the 2019 Yuhuan Water Supply Framework Agreement as well as the annual caps for the continuing connected transactions thereunder will expire on 31 December 2021, on 1 September 2021, the Company and Taizhou City Water (as the case may be) have entered into renewal agreements to renew each of the aforementioned agreements.

As at the date of this announcement, (i) Wenling Water Supply is a wholly-owned subsidiary of Wenling Water Group Co., Ltd.* (溫嶺市水務集團有限公司), which in turn holds 18% equity interest in Taizhou City Water, a subsidiary of the Company; and (ii) Yuhuan Water Supply is a wholly-owned subsidiary of Yuhuan Water Supply Group Co., Ltd.* (玉環市水務集團有限公司), which in turn holds 40% equity interest in Taizhou South Bay Water Supply Co., Ltd.* (台州市南部灣區水務有限公司), a subsidiary of the Company. Accordingly, each of Wenling Water Supply and Yuhuan Water Supply is a connected person at the subsidiary level of the Company.

As (i) the Board has approved the transactions contemplated under the 2021 Wenling Water Supply Framework Agreement and the 2021 Yuhuan Water Supply Framework Agreement; and (ii) the independent non-executive Directors have confirmed that the terms of each of the transactions contemplated under the 2021 Wenling Water Supply Framework Agreement and the 2021 Yuhuan Water Supply Framework Agreement are fair and reasonable, on normal commercial terms in the ordinary and normal course of business of the Group and in the interests of the Company and the Shareholders as a whole, each of the 2021 Wenling Water Supply Framework Agreement and 2021 Yuhuan Water Supply Framework Agreement is only subject to the reporting, announcement and annual review requirements, but is exempted from the circular, independent financial adviser's advices and independent shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

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

GENERAL

The EGM will be convened to consider and approve, among others, the Huangyan Equity Transfer Agreement, the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder.

A circular containing, among other things, (i) details of the Huangyan Equity Transfer Agreement; (ii) details of the Supplemental 2019 CCT Agreements; (iii) details of the 2021 Huangyan Water Supply Framework Agreement; (iv) the recommendation from the Independent Board Committee; (v) the advice and recommendation from Red Sun and Honestum; and (vi) a notice convening the EGM together with the proxy form and the reply slip, will be despatched to the Shareholders on or before 23 September 2021.

As the Acquisition is subject to the fulfillment of various conditions precedent which may or may not be fulfilled, there is no assurance that the Acquisition will be completed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION

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

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

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

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

Subject matter

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

Consideration and adjustment thereto

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

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

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

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

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

Basis of consideration

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

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

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

Completion

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

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

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

Effective date

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

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

Termination

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

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

Post-completion adjustments

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

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

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

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

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

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

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

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

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

Board representation

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

INFORMATION OF THE TARGET

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

Huangyan Water Supply holds the following wholly-owned subsidiaries:

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

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

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

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

The difference between the unaudited net assets value and the valuation of the equity interest of Huangyan Water Supply as set out above is mainly due to different treatment of certain deferred government grants of approximately RMB221.6 million as at 31 May 2021 (the “**Deferred Grants**”) and net employee defined benefit plan liabilities of approximately RMB53.4 million as at 31 May 2021 (the “**Employee Liabilities**”). In computing the unaudited net assets value, both the Deferred Grants and the Employee Liabilities were recognised as non-current liabilities, while in computing the valuation of the equity interest, (i) the Deferred Grants were appraised as nil fair value as they were no longer repayable to the relevant government authorities; and (ii) the Employee Liabilities were not taken into consideration under the financial statements of Huangyan Water Supply prepared under PRC accounting standard, which were relied on by the Independent Valuer in preparing the Huangyan Water Supply Valuation Report.

REASONS FOR AND BENEFITS OF THE ACQUISITION

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

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

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

(2) FURTHER REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

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

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

(A) 2019 Huangyan Water Supply Framework Agreement

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

Transaction value for the six months ended 30 June 2021

Based on the Company's unaudited financial information as at 30 June 2021, the total transaction amount of raw water supply services provided by the Company to Huangyan Water Supply under the 2019 Huangyan Water Supply Framework Agreement for the six months ended 30 June 2021 amounted to approximately RMB22,950,000.

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

The Further Revised Huangyan Annual Cap

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

Basis for the Further Revised Huangyan Annual Cap

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

- (1) The historical transaction amount of raw water supply services provided by the Company to Huangyan Water Supply for the six months ended 30 June 2021 recorded in the unaudited financial information of the Company accounted for approximately 54.9% of the Original Huangyan Annual Cap. Based on the historical transaction value, the Group generally records higher water supply volume in the second half of the year than in the first. The Directors expect that the Original Huangyan Annual Cap will not be sufficient to meet the Group's requirements for the year ending 31 December 2021.

- (2) As a local reservoir which also supplied raw water to Huangyan Water Supply has been shut down for reinforcement project since the fourth quarter of 2020 and such reinforcement project may not be completed within a short period, Huangyan Water Supply would require additional raw water supply from the Company to replace the original raw water supply from such local reservoir. Accordingly, demand for raw water supply services from Huangyan Water Supply for the year ending 31 December 2021 is expected to increase.
- (3) With the continued coronavirus pandemic which has heightened people's health and hygiene awareness, there has been a higher frequency of cleaning in both household and commercial settings. Such change in the cleaning habits of the general public in Taizhou has led to an expected increase in residential and non-residential water consumption, and thus an estimated increase in demand of raw water supply services from Huangyan Water Supply for the year ending 31 December 2021.

The Second Supplemental 2019 Huangyan Water Supply Framework Agreement

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

(B) 2019 Taizhou Luqiao Raw Water Supply Framework Agreement

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

Transaction value for the six months ended 30 June 2021

Based on the Company's unaudited financial information as at 30 June 2021, the total transaction amount of raw water supply services provided by the Company to Taizhou Luqiao Water Supply under the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement for the six months ended 30 June 2021 amounted to approximately RMB16,841,000.

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

The Revised Taizhou Luqiao Raw Water Annual Cap

**For the year ending
31 December 2021
(RMB'000)**

Original Taizhou Luqiao Raw Water Annual Cap	32,424
Revised Taizhou Luqiao Raw Water Annual Cap	36,000

Basis for the Revised Taizhou Luqiao Raw Water Annual Cap

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

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

The Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement

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

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

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

REASONS FOR AND BENEFITS OF REVISING THE ORIGINAL ANNUAL CAPS

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

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

(3) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Reference is made to the section headed "Connected Transactions" in the Prospectus in relation to, among other things, the 2019 Huangyan Water Supply Framework Agreement, the 2019 Wenling Water Supply Framework Agreement and the 2019 Yuhuan Water Supply Framework Agreement. As the term of each of the 2019 Huangyan Water Supply Framework Agreement, the 2019 Wenling Water Supply Framework Agreement and the 2019 Yuhuan Water Supply Framework Agreement as well as the annual caps for the continuing connected transactions thereunder will expire on 31 December 2021, on 1 September 2021, the Company and Taizhou City Water (as the case may be) have entered into renewal agreements to renew each of the aforementioned agreements.

(A) 2021 Huangyan Water Supply Framework Agreement

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

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

Annual cap and basis for determining the annual cap

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

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

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

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

Notes:

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

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

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

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

(B) 2021 Wenling Water Supply Framework Agreement

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

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

Annual cap and basis for determining the annual cap

The historical transaction amount between Taizhou City Water and Wenling Water Supply is as follows:

	Year ended 31 December		Six months ended 30 June
	2019	2020	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Historical transaction amount	<u>104,683</u>	<u>104,652</u>	<u>63,568</u>

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

	Year ended 31 December		Year ending 31 December
	2019	2020	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Historical annual caps	<u>111,833</u>	<u>121,015</u>	<u>122,919</u>

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

	Year ending 31 December		
	2022 <i>(RMB'000)</i>	2023 <i>(RMB'000)</i>	2024 <i>(RMB'000)</i>
Expected annual caps	<u>129,100</u>	<u>129,100</u>	<u>129,450</u>

The above expected annual caps were determined with reference to the (i) historical transaction figures as listed above; (ii) the expected demand of municipal water services from Wenling Water Supply taking into account the change in cleaning habits of the general public due to the continued coronavirus outbreak; (iii) the expected increase in municipal water supply capacity of the Group upon completion of construction of Taizhou Water Supply System (Phase III and Phase IV); and (iv) the water prices as approved by Taizhou DRC.

(C) 2021 Yuhuan Water Supply Framework Agreement

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

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

Annual cap and basis for determining the annual cap

The historical transaction amount between Taizhou City Water and Yuhuan Water Supply is as follows:

	Year ended 31 December		Six months ended 30 June
	2019	2020	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Historical transaction amount	<u>39,989</u>	<u>52,219</u>	<u>29,185</u>

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

	Year ended 31 December		Year ending 31 December
	2019	2020	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Historical annual caps	<u>47,794</u>	<u>54,777</u>	<u>55,124</u>

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

	Year ending 31 December		
	2022	2023	2024
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Expected annual caps	<u>61,310</u>	<u>61,310</u>	<u>61,470</u>

The above expected annual caps were determined with reference to the (i) historical transaction figures as listed above; (ii) the expected demand of municipal water services from Yuhuan Water Supply taking into account the change in cleaning habits of the general public due to the continued coronavirus outbreak; (iii) the expected increase in municipal water supply capacity of the Group upon completion of construction of Taizhou Water Supply System (Phase III and Phase IV); and (iv) the water prices as approved by Taizhou DRC.

REASONS FOR AND BENEFITS OF RENEWING THE CONTINUING CONNECTED TRANSACTIONS

The Company and Taizhou City Water have been providing raw water and/or municipal water supply services in or incidental to its ordinary and usual course of business to Huangyan Water Supply, Wenling Water Supply and Yuhuan Water Supply, which will then provide tap water (after purification of raw water, if necessary) for use by the residents and enterprises in Huangyan District, Wenling City and Yuhuan City of Taizhou. The Company considers that the transactions contemplated under the 2021 CCT Agreements will allow the Group to continue to serve end-users in different districts of Taizhou, and thus contribute to the turnover and the performance of the Group.

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

The Directors (including the independent non-executive Directors) consider that the 2021 Wenling Water Supply Framework Agreement and the 2021 Yuhuan Water Supply Framework Agreement are entered into in the usual and ordinary course of business of the Group, are conducted on an arm's length basis and on normal commercial terms between the Group and each of Wenling Water Supply and Yuhuan Luqiao Water Supply, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL POLICIES AND PROCEDURES

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

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

INFORMATION OF THE PARTIES

The Company

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

The Vendor

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

Huangyan Water Supply

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

Taizhou City Water

Taizhou City Water principally engages in the operation and management of water treatment projects of the Taizhou Second Phase Water Supply Project (台州二期供水工程) of the Group. As at the date of this announcement, Taizhou City Water is an 82%-owned subsidiary of the Company, and its remaining 18% equity interest is owned by Wenling Water Group Co., Ltd., which is in turn ultimately wholly-owned by the Finance Bureau of Wenling City (溫嶺市財政局).

Taizhou Luqiao Water Supply

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

Wenling Water Supply

Wenling Water Supply principally engages in the production and supply of municipal water in Wenling District of Taizhou. As at the date of this announcement, Wenling Water Supply is ultimately wholly-owned by the Finance Bureau of Wenling City.

Yuhuan Water Supply

Yuhuan Water Supply principally engages in the supply of municipal water in Yuhuan District of Taizhou. As at the date of this announcement, Yuhuan Water Supply is ultimately owned as to 90% and 10% by the Finance Bureau of Wenling City and Zhejiang Provincial Department of Finance, respectively.

IMPLICATIONS UNDER THE LISTING RULES

(1) Discloseable and connected transaction in relation to the Acquisition

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

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

(2) Further revision of annual caps for continuing connected transactions

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

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

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

(3) Renewal of continuing connected transactions

As at the date of this announcement, (i) Wenling Water Supply is a wholly-owned subsidiary of Wenling Water Group Co., Ltd., which in turn holds 18% equity interest in Taizhou City Water, a subsidiary of the Company; and (ii) Yuhuan Water Supply is a wholly-owned subsidiary of Yuhuan Water Supply Group Co., Ltd., which in turn holds 40% equity interest in Taizhou South Bay Water Supply Co., Ltd., a subsidiary of the Company. Accordingly, each of Wenling Water Supply and Yuhuan Water Supply is a connected person at the subsidiary level of the Company.

As (i) the Board has approved the transactions contemplated under the 2021 Wenling Water Supply Framework Agreement and the 2021 Yuhuan Water Supply Framework Agreement; and (ii) the independent non-executive Directors have confirmed that the terms of each of the transactions contemplated under the 2021 Wenling Water Supply Framework Agreement and the 2021 Yuhuan Water Supply Framework Agreement are fair and reasonable, on normal commercial terms in the ordinary and normal course of business of the Group and in the interests of the Company and the Shareholders as a whole, each of the 2021 Wenling Water Supply Framework Agreement and the 2021 Yuhuan Water Supply Framework Agreement is only subject to the reporting, announcement and annual review requirements, but is exempted from the circular, independent financial adviser's advices and independent shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

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

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

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

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

EGM

The EGM will be convened to consider and approve, among others, the Huangyan Equity Transfer Agreement, the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder.

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 this announcement, will abstain from voting at the EGM in respect of the resolutions to approve the Huangyan Equity Transfer Agreement, the Second Supplemental 2019 Huangyan Water Supply Framework Agreement and the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder.

Taizhou Luqiao Public Assets and its associates, which hold approximately 8.80% of the total issued share capital of the Company as at the date of this announcement, will abstain from voting at the EGM in respect of the resolutions to approve the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement and the transactions contemplated thereunder.

GENERAL

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

A circular containing, among other things, (i) details of the Huangyan Equity Transfer Agreement; (ii) details of the Supplemental 2019 CCT Agreements; (iii) details of the 2021 Huangyan Water Supply Framework Agreement; (iv) the recommendation from the Independent Board Committee; (v) the advice and recommendation from Red Sun and Honestum; and (vi) a notice convening the EGM together with the proxy form and the reply slip, will be despatched to the Shareholders on or before 23 September 2021.

As the Acquisition is subject to the fulfillment of various conditions precedent which may or may not be fulfilled, there is no assurance that the Acquisition will be completed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

“2019 Huangyan Water Supply Framework Agreement”	the agreement entered into between the Company and Huangyan Water Supply dated 27 October 2019 in relation to the provision of raw water supply services by the Company to Huangyan Water Supply, as supplemented by the Supplemental 2019 Huangyan Water Supply Framework Agreement
“2019 Taizhou Luqiao Raw Water Supply Framework Agreement”	the agreement entered into between the Company and Taizhou Luqiao Water Supply dated 27 October 2019 in relation to the provision of raw water supply services by the Company to Taizhou Luqiao Water Supply
“2019 Wenling Water Supply Framework Agreement”	the agreement entered into between Taizhou City Water and Wenling Water Supply dated 27 October 2019 in relation to the provision of municipal water supply services by Taizhou City Water to Wenling Water Supply
“2019 Yuhuan Water Supply Framework Agreement”	the agreement entered into between Taizhou City Water and Yuhuan Water Supply dated 27 October 2019 in relation to the provision of municipal water supply services by Taizhou City Water to Yuhuan Water Supply
“2021 CCT Agreements”	collectively, the 2021 Huangyan Water Supply Framework Agreement, the 2021 Wenling Water Supply Framework Agreement and the 2021 Yuhuan Water Supply Framework Agreement
“2021 Huangyan Water Supply Framework Agreement”	the agreement entered into between the Company and Huangyan Water Supply dated 1 September 2021 in relation to the provision of raw water supply services by the Company to Huangyan Water Supply
“2021 Wenling Water Supply Framework Agreement”	the agreement entered into between Taizhou City Water and Wenling Water Supply dated 1 September 2021 in relation to the provision of municipal water supply services by Taizhou City Water to Wenling Water Supply
“2021 Yuhuan Water Supply Framework Agreement”	the agreement entered into between Taizhou City Water and Yuhuan Water Supply dated 1 September 2021 in relation to the provision of municipal water supply services by Taizhou City Water to Yuhuan Water Supply

“Acquisition”	the acquisition of 45% equity interest in Huangyan Water Supply in accordance with the terms and conditions of the Huangyan Equity Transfer Agreement
“Board”	the board of directors of the Company
“Business Day(s)”	a day (excluding Saturday, Sunday and public holiday in the PRC) on which commercial banks are open for business in the PRC
“China” or “PRC”	the People’s Republic of China, which for the purpose of this announcement 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
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened by the Company to consider, among others, the Huangyan Equity Transfer Agreement, the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder
“Further Revised Annual Caps”	collectively, the Further Revised Huangyan Annual Cap and the Revised Taizhou Luqiao Raw Water Annual Cap
“Further Revised Huangyan Annual Cap”	the proposed revised annual cap amount for the year ending 31 December 2021 for the transactions contemplated under the 2019 Huangyan Water Supply Framework Agreement
“Group”	the Company, its subsidiaries and its consolidated affiliated entities from time to time
“Honestum”	Honestum International Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser that has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement, and the respective transactions contemplated thereunder

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huangyan Equity Transfer Agreement”	the equity transfer agreement dated 1 September 2021 entered into between the Company, the Vendor and Huangyan Water Supply in relation to the Acquisition
“Huangyan SCIOG”	Taizhou Huangyan State-owned Capital Investment Operation Group Co., Ltd.* (台州市黃岩國有資本投資運營集團有限公司) (formerly known as Taizhou Huangyan State-owned Assets Operation Group Co., Ltd.* (台州市黃岩區國有資產經營集團有限公司)), a wholly state-owned enterprise with limited liability established in the PRC
“Huangyan Water Supply”	Taizhou Huangyan Urban and Rural Water Supply Co., Ltd.* (台州市黃岩城鄉自來水有限公司) (formerly known as Zhejiang Huangyan Water Supply Co., Ltd.* (浙江黃岩自來水公司)), a limited liability company established in the PRC, and is a wholly-owned subsidiary of the Vendor as at the date of this announcement
“Huangyan Water Supply Valuation Report”	the valuation report dated 19 July 2021 issued by the Independent Valuer in respect of the appraisal of the equity attributable to the owners of Huangyan Water Supply as at the Valuation Reference Date
“Independent Board Committee”	an independent committee of the Board, comprising all five independent non-executive Directors, established to advise the Independent Shareholders in respect of each of the Huangyan Equity Transfer Agreement, the Supplemental 2019 CCT Agreements and the 2021 Huangyan Water Supply Framework Agreement
“Independent Shareholders”	Shareholders who do not have a material interest in (1) the Huangyan Equity Transfer Agreement; (2) the Supplemental 2019 CCT Agreements; and (3) the 2021 Huangyan Water Supply Framework Agreement, as the case may be
“Independent Valuer”	Kun Yuan Assets Appraisal Co., Ltd.* (坤元資產評估有限公司), an independent PRC valuer
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Original Annual Caps”	collectively, the Original Huangyan Annual Cap and the Original Taizhou Luqiao Raw Water Annual Cap

“Original Huangyan Annual Cap”	the original annual cap amount for the year ending 31 December 2021 for the transactions contemplated under the 2019 Huangyan Water Supply Framework Agreement
“Original Taizhou Luqiao Raw Water Annual Cap”	the original annual cap amount for the year ending 31 December 2021 for the transactions contemplated under the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement
“Prospectus”	the prospectus of the Company dated 17 December 2019
“Red Sun”	Red Sun Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser that has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Huangyan Equity Transfer Agreement and the transactions contemplated thereunder
“Revised Taizhou Luqiao Raw Water Annual Cap”	the proposed revised annual cap amount for the year ending 31 December 2021 for the transactions contemplated under the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Second Supplemental 2019 Huangyan Water Supply Framework Agreement”	the agreement dated 1 September 2021 entered into between the Company and Huangyan Water Supply to supplement the 2019 Huangyan Water Supply Framework Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of the Company with a nominal value of RMB1.00 each
“Shareholder(s)”	holder(s) of the Share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental 2019 CCT Agreements”	collectively, the Second Supplemental 2019 Huangyan Water Supply Framework Agreement and the Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement

“Supplemental 2019 Huangyan Water Supply Framework Agreement”	the agreement dated 13 August 2020 entered into between the Company and Huangyan Water Supply to supplement the 2019 Huangyan Water Supply Framework Agreement
“Supplemental 2019 Taizhou Luqiao Raw Water Supply Framework Agreement”	the agreement dated 1 September 2021 entered into between the Company and Taizhou Luqiao Water Supply to supplement the 2019 Taizhou Luqiao Raw Water Supply Framework Agreement
“Taizhou City Water”	Taizhou City Water Co., Ltd.* (台州城市水務有限公司), a limited liability company established in the PRC and a 82%-owned subsidiary of the Company as at the date of this announcement
“Taizhou DRC”	Taizhou Development and Reform Commission (台州市發展和改革委員會)
“Taizhou Luqiao Public Assets”	Taizhou Luqiao Public Assets Investment Management Group Co., Ltd.* (台州市路橋公共資產投資管理集團有限公司) (formerly known as Taizhou Luqiao Public Assets Investment Management Co., Ltd.* (台州市路橋公共資產投資管理有限公司)), a limited liability company established in the PRC which holds approximately 8.80% of the total issued share capital of the Company as at the date of this announcement
“Taizhou Luqiao Water Supply”	Taizhou Luqiao Water Supply Co., Ltd.* (台州市路橋自來水有限公司), a limited liability company established in the PRC
“Transition Period”	the period from the Valuation Reference Date to the completion date of the Acquisition
“Valuation Reference Date”	30 April 2021, being the reference date of the Huangyan Water Supply Valuation Report on the appraisal of the equity attributable to owners of Huangyan Water Supply
“Vendor”	Taizhou Huangyan Water Conservancy Development Group Co., Ltd.* (台州市黃岩水利發展集團有限公司), a limited liability company established in the PRC
“Wenling Water Supply”	Wenling Water Supply Co., Ltd.* (溫嶺市供水有限公司), a limited liability company established in the PRC

“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 date of this announcement
“Yuhuan Water Supply”	Yuhuan Water Supply Co., Ltd.* (玉環市自來水有限公司), a limited liability company established in the PRC
“%”	per cent

By order of the Board of Directors
Taizhou Water Group Co., Ltd.*
 台州市水務集團股份有限公司
Yang Jun
Chairman and Executive Director

Taizhou, the PRC
 1 September 2021

As at the date of this announcement, the executive Directors are Mr. Yang Jun and Mr. Zhang Junzhou; the non-executive Directors are Mr. Wang Haiping, Mr. Wang Haibo, Ms. Fang Ya, Mr. Yu Yangbin, Ms. Huang Yuyan, Mr. Yang Yide, Mr. Guo Dingwen and Mr. Sun Hua; and the independent non-executive Directors are Mr. Zheng Jianzhuang, Ms. Hou Meiwen, Mr. Li Wai Chung, Ms. Lin Suyan and Mr. Wang Yongyue.

* For identification purpose only