

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



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) MAJOR TRANSACTION
IN RESPECT OF
POTENTIAL CONSTRUCTION WORKS
FROM TAIZHOU WATER TREATMENT PLANT TO
JIAOJIANG DISTRICT (LUQIAO SECTION);
AND
(2) CONTINUING CONNECTED TRANSACTION
IN RESPECT OF
HUANGYAN RESERVOIR WATER SUPPLY
FRAMEWORK AGREEMENT**

(1) POTENTIAL CONSTRUCTION WORKS FROM TAIZHOU WATER TREATMENT PLANT TO JIAOJIANG DISTRICT (LUQIAO SECTION)

On 31 March 2023, the Board resolved to approve the construction and installation of water supply pipeline from Taizhou Water Treatment Plant to Jiaojiang District (Luqiao section).

Taizhou City Water intends to select the Potential Contractor to conduct the Potential Construction Works by way of tender. The information of the Construction Tender will be submitted to and be publicly available on the relevant government's website on or around May 2023, whereby any qualified construction work contractors may apply for and submit proposals to bid in the Construction Tender. Upon completion of the Construction Tender, a successful bidder will be identified as the Potential Contractor and it will enter into the Construction Agreement with Taizhou City Water in respect of the Potential Construction Works.

(2) 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.

LISTING RULES IMPLICATIONS

(1) Potential Construction Works from Taizhou Water Treatment Plant to Jiaojiang District (Luqiao Section)

Based on the proposed tender price ceiling, as one of the applicable percentage ratios in respect of the transactions contemplated under the Potential Construction Works exceeds 25% but all of them are less than 100%, the transactions contemplated thereunder will constitute a major transaction of the Company and are therefore subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

(2) Huangyan Reservoir Water Supply Framework Agreement

As at the date of this announcement, 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.

GENERAL

A circular containing, among other things, (i) details of the Potential Construction Works; (ii) details of the Huangyan Reservoir Water Supply Framework Agreement; (iii) the recommendation from the Independent Board Committee to the Independent Shareholders with respect to the Huangyan Reservoir Water Supply Framework Agreement; (iv) the advice and recommendation from the Independent Financial Adviser with respect to the Huangyan Reservoir Water Supply Framework Agreement; and (v) a notice convening the general meeting together with the proxy form and the reply slip, will be despatched to the Shareholders on or before 31 May 2023 as additional time is required for preparing the information to be included in the circular.

(1) POTENTIAL CONSTRUCTION WORKS FROM TAIZHOU WATER TREATMENT PLANT TO JIAOJIANG DISTRICT (LUQIAO SECTION)

On 31 March 2023, the Board resolved to approve the construction and installation of water supply pipeline from Taizhou Water Treatment Plant to Jiaojiang District (Luqiao section).

Taizhou City Water intends to select the Potential Contractor to conduct the Potential Construction Works by way of tender. The information of the Construction Tender will be submitted to and be publicly available on the relevant government's website on or around May 2023, whereby any qualified construction work contractors may apply for and submit proposals to bid in the Construction Tender. Upon completion of the Construction Tender, a successful bidder will be identified as the Potential Contractor and it will enter into the Construction Agreement with Taizhou City Water in respect of the Potential Construction Works.

Principal Terms of the Construction Tender and the Potential Construction Works

The principal terms of the Construction Tender and the Potential Construction Works are set out as follows:

Subject Matter: It is proposed that the Potential Contractor shall be responsible for the Potential Construction Works, including but not limited to construction and installation of water supply pipeline from Taizhou Water Treatment Plant to Jiaojiang District (Luqiao section) in accordance with the construction drawings and technical specifications as set forth in the relevant tender documents.

Consideration: It is expected that a tender price ceiling of around RMB160 million for the Potential Construction Works will be set in the Construction Tender. The tender price shall include all engineering and construction costs to be incurred by the Potential Contractor relating to the Potential Construction Works, subject to adjustment in accordance with relevant provisions in the Construction Agreement.

The proposed tender price ceiling was set by Taizhou City Water based on the estimated costs taking into account the proposed scope, complexity and scale of work involved, the required standards of the Potential Construction Works, the minimum qualification requirements of potential bidders and prices for similar construction services.

The consideration is expected to be funded by internal resources and banking facilities of the Group.

Conditions precedent: The Construction Contract shall be conditional upon the approval by the Shareholders of the Construction Contract and the transactions contemplated thereunder.

Qualification requirements of the potential bidder: The qualification requirements of the potential bidder to participate in the Construction Tender are set out as follows:–

- (1) the potential bidder shall be qualified as a first class or above municipal engineering contractor* (市政工程一級承包商或以上);
- (2) the business license, proof of qualification and safety production permits of the potential bidder shall be valid and existing;
- (3) the potential bidder shall be able to designate one project manager and one technical management person-in-charge for the Potential Construction Works, all of whom shall meet the specified qualification and experience requirements and are employees of the potential bidder; and
- (4) potential bidders that are dishonest and have been stated as dishonest persons subject to enforcement on Credit China (www.creditchina.gov.cn) will be disqualified and no tenders submitted jointly by different parties will be accepted.

In addition, it is expected that the Potential Contractor and its ultimate beneficial owner(s) shall be third parties independent of the Company and connected persons of the Company.

Procedures of the Construction Tender: Taizhou City Water has appointed an independent tendering agent to prepare the tender document and administer the tender process for the Potential Construction Works. The information of the Construction Tender will be submitted to and be publicly available on the relevant government's website on or around May 2023, whereby any qualified construction work contractors may apply for and submit proposals to bid in the Construction Tender.

After a successful bidder has been identified, Taizhou City Water shall further finalise and enter into the Construction Agreement with the Potential Contractor. Further announcements will be made by the Company in relation to, among other things, the identity of the successful bidder and the terms of the Construction Agreement as and when appropriate.

Taizhou City Water reserves the right to enter into the Construction Agreement with the Potential Contractor at its absolute discretion. The terms and conditions of the Construction Agreement to be entered into shall be materially similar, if not identical, to the terms described hereinabove and that of the Construction Tender. The Company will make further announcements in relation to, among other things, the Construction Agreement as and when appropriate.

Expected date of commencement and completion of the Potential Construction Works:	Subject to successful completion of the Construction Tender and the due execution of the Construction Agreement, the Potential Construction Works are tentatively expected to commence in or around November 2023 and to be completed in November 2025.
---	---

Reasons for and Benefits of the Potential Construction Works

In recent years, the urban development in Jiaojiang District and Luqiao District has driven the population growth within the vicinities and hence the increase in the level of water consumption. The current water supply scales are far from meeting the needs of Jiaojiang District and Luqiao District.

To resolve the ever-growing demand for water supply in Jiaojiang District, it is proposed that a water supply pipeline to be built from the Taizhou Water Treatment Plant to Jiaojiang District (Luqiao section) to resolve the existing water demand pressure and to improve the safety and reliability of the water supply system in Taizhou as a whole.

Based on the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Construction Tender and the Potential Construction Works and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(2) 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.

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:	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 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 2021 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 RMB79.8 million and RMB75.6 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.

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
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
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 Transaction

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 (other than the independent non-executive Directors whose view will be given after taking 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.

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.

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.

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 date of this announcement. 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).

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 date of this announcement, 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.

LISTING RULES IMPLICATIONS

(1) Potential Construction Works from Taizhou Water Treatment Plant to Jiaojiang District (Luqiao Section)

Based on the proposed tender price ceiling, as one of the applicable percentage ratios in respect of the transactions contemplated under the Potential Construction Works exceeds 25% but all of them are less than 100%, the transactions contemplated thereunder will constitute a major transaction of the Company and are therefore subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

(2) Huangyan Reservoir Water Supply Framework Agreement

As at the date of this announcement, 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.

The Independent Board Committee comprising all independent non-executive Directors will be 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 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 general meeting in respect of the resolution to approve the Huangyan Reservoir Water Supply Framework Agreement and the transactions contemplated thereunder.

GENERAL

A circular containing, among other things, (i) details of the Potential Construction Works; (ii) details of the Huangyan Reservoir Water Supply Framework Agreement; (iii) the recommendation from the Independent Board Committee to the Independent Shareholders with respect to the Huangyan Reservoir Water Supply Framework Agreement; (iv) the advice and recommendation from the Independent Financial Adviser with respect to the Huangyan Reservoir Water Supply Framework Agreement; and (v) a notice convening the general meeting together with the proxy form and the reply slip, will be despatched to the Shareholders on or before 31 May 2023 as additional time is required for preparing the information to be included in the circular.

DEFINITIONS

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

“Board”	the board of directors of the Company
“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 under the Listing Rules
“Construction Agreement”	the construction agreement to be entered into between Taizhou City Water and the Potential Contractor in respect of the Potential Construction Works

“Construction Tender”	the tender to be conducted by Taizhou City Water (through an independent tendering agent) in respect of the Potential Construction Works
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	issued ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB
“Group”, “we” or “our”	the Company, its subsidiaries and its consolidated affiliated entities from time to time
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange and traded in Hong Kong dollars
“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, to be 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
“Independent Shareholders”	Shareholders who do not have a material interest in the Huangyan Reservoir Water Supply Framework Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Potential Construction Works”	the potential construction works in respect of the construction and installation of water supply pipeline from Taizhou Water Treatment Plant to Jiaojiang District (Luqiao section)

“Potential Contractor”	the successful bidder of the Construction Tender
“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
“subsidiary/(ies)”	has the meaning ascribed to it under the Listing Rules
“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 date of this announcement
“%”	per cent

By order of the Board
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
 31 March 2023

As at the date of this announcement, the executive Directors are Mr. Yang Jun and Mr. Pan Gang; the non-executive Directors are Mr. Wang Haibo, Mr. Lin Genman, Ms. Fang Ya, Mr. Yu Yangbin, Mr. Ye Xiaofeng, Mr. Yang Yide, Mr. Guo Dingwen and Mr. Lin Yang; and the independent non-executive Directors are Mr. Huang Chun, Ms. Lin Suyan, Ms. Hou Meiwen, Mr. Li Wai Chung and Mr. Wang Yongyue.

* For identification purpose only