



10 October 2024

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

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the 2025 Huangyan Urban and Rural Water Supply Framework Agreement, details of which are set out in the letter from the Board (the **"Letter from the Board"**) contained in this circular (the **"Circular"**) dated 10 October 2024 issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

Reference is made to the 2021 Huangyan Water Supply Framework Agreement (the **"Existing CCT Agreement"**), details of which are set out in the announcement of the Company dated 1 September 2021 and in the announcement of the Company dated 27 September 2024 in relation to the Proposed Annual Caps (the **"Announcement"**). Since the annual caps of the continuing connected transactions of the Company as contemplated under the 2021 Huangyan Water Supply Framework Agreement are due to expire on 31 December 2024, the Company and Huangyan Urban and Rural Water Supply entered into 2025 Huangyan Urban and Rural Water Supply Framework Agreement for a term of three financial years commencing from 1 January 2025 and ending on 31 December 2027 with the proposed annual caps of approximately RMB53.0 million, RMB55.0 million and RMB58.0 million (**"Proposed Annual Caps"**), respectively.

As at the Latest Practicable Date, Huangyan Urban and Rural Water Supply is indirectly owned as to 49% by Huangyan SCIOG, a substantial Shareholder of the Company, and hence a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules. As the applicable percentage ratios under the Listing Rules in respect of the Proposed Annual Caps for the transactions contemplated under the 2025 Huangyan Urban and Rural Water Supply Framework Agreement, on an annual basis, are more than 5%, such continuing connected transactions and the Proposed Annual Caps are subject to

requirements including reporting, announcement, annual review and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

Among the Directors, as Ms. Fang Ya, a non-executive Director, is a director nominated by Yongning Financial Consulting, which is a subsidiary of Huangyan SCIOG, the holding company of Huangyan Urban and Rural Water Supply, she is deemed to have a material interest in the 2025 Huangyan Urban and Rural Water Supply Framework Agreement, and has abstained from voting on the board resolutions in respect of the 2025 Huangyan Urban and Rural Water Supply Framework Agreement. Save as disclosed above, none of the Directors has material interest in the 2025 Huangyan Urban and Rural Water Supply Framework Agreement, and therefore no other Director has abstained from voting on such board resolution.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Huang Chun, Ms. Hou Meiwen, Mr. Li Wai Chung, Ms. Lin Suyan and Mr. Wang Yongyue, has been established to advise the Independent Shareholders as to whether the 2025 Huangyan Urban and Rural Water Supply Framework Agreement and the Proposed Annual Caps are in the ordinary course of business of the Company, on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to give a recommendation to the Independent Shareholders in respect of the voting on the resolution to be proposed at the EGM to approve the 2025 Huangyan Urban and Rural Water Supply Framework Agreement and the transactions contemplated thereunder, including the Proposed Annual Caps. As an Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we, Honestum International Limited, were not aware of any relationships or interests between us and (i) the Group; (ii) Huangyan Urban and Rural Water Supply; and (iii) any other parties during the past two years under the Listing Rules that could be reasonably regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2025 Huangyan Urban and Rural Water Supply Framework Agreement and the transactions contemplated thereunder, including the Proposed Annual Caps.

In the past two years immediately preceding the Latest Practicable Date, we have acted as the independent financial adviser to the then independent board committee and the then independent shareholders of the Company for the continuing connected transactions (the **"Previous Engagement"**), details of which are set out in the circular of the Company dated 31 May 2023. Under the Previous Engagement, we were required to express our opinion on and give recommendations to the independent board committee and independent shareholders of the Company in relation to the continuing connected transactions. Apart from the independent financial adviser roles in connection with the Previous Engagement and the transactions disclosed in the Circular, we have not acted in any capacity of the Group in the past two years immediately preceding the Latest

Practicable Date. Apart from normal professional fees paid or payable to us in connection with this appointment as the independent financial adviser, no arrangement exist whereby we had received or will receive any fees or benefits from the Company or any other party to the transaction.

BASIS OF OUR OPINION

In arriving at our recommendation, we have relied on the accuracy of the information and representations contained in the annual report of the Group for the year ended 31 December 2023, the Circular and have assumed that all information and representations made or referred to in the Circular as provided by the management (the “**Management**”) of the Company were true, accurate and complete at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the Management regarding the continuing connected transactions including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Management respectively in the Circular were reasonably made after due enquiry and careful consideration. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have no reason to suspect that any material facts or information have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Management. We have not, however, carried out any independent verification of the information provided by the Management, nor have we conducted an independent in-depth investigation into the business and affairs of (i) the Group; (ii) Huangyan Urban and Rural Water Supply or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation with regard to the terms of the 2025 Huangyan Urban and Rural Water Supply Framework Agreement and the transactions contemplated thereunder, including the Proposed Annual Caps, we have taken into account the following principal factors and reasons:

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

1.1 Information on the Company

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

1.2 Information on Huangyan Urban and Rural Water Supply

Huangyan Urban and Rural Water Supply principally engages in the business of centralised water supply services in Huangyan District of Taizhou. As at the Latest Practicable Date, Huangyan Urban and Rural Water Supply is owned as to 45% by the Company, 49% by Taizhou Huangyan Water Conservancy Development Group Co., Ltd.* (台州市黃岩水利發展集團有限公司) and 6% by Taizhou Shengshui Equity Investment Partnership (Limited Partnership)* (台州盛水股權投資合夥企業(有限合夥)). As at the Latest Practicable Date, Taizhou Huangyan Water Conservancy Development Group Co., Ltd. is an indirect wholly-owned subsidiary of Huangyan SCIOG, a substantial Shareholder of the Company, which is ultimately owned by the Finance Bureau of Huangyan District of Taizhou, a PRC Government Body. Taizhou Shengshui Equity Investment Partnership (Limited Partnership) is ultimately owned as to 99% by State-owned Assets Supervision and Administration Commission of the People's Government of Taizhou* (台州市人民政府國有資產監督管理委員會) and 1% by Shanghai Shengpu Enterprise Management Partnership (Limited Partnership)* (上海盛浦企業管理合夥企業(有限合夥)), which is ultimately owned by six individual Independent Third Parties.

2. The Proposed Annual Caps

2.1 Background of the 2025 Huangyan Urban and Rural Water Supply Framework Agreement and benefits for the Proposed Annual Caps

The Group has established business cooperation with Huangyan Urban and Rural Water Supply since 1995. On 1 September 2021, the Group entered into the Existing CCT Agreement with Huangyan Urban and Rural Water Supply with a renewable term commencing from 1 January 2022 to 31 December 2024 (both days inclusive). Pursuant to the Existing CCT Agreement, the Group agreed to provide raw water supply services to Huangyan Urban and Rural Water Supply.

In light of the upcoming expiration of the 2021 Huangyan Water Supply Framework Agreement with Huangyan Urban and Rural Water Supply on 31 December 2024, the Company entered into the 2025 Huangyan Urban and Rural Water Supply Framework Agreement with Huangyan Urban and Rural Water Supply on 27 September 2024, which adopts substantially the same terms and conditions as the 2021 Huangyan Water Supply Framework Agreement with Huangyan Urban and Rural Water Supply, with the Proposed Annual Caps for the three years ending 31 December 2027. The details of the principal terms of the 2025 Huangyan Urban and Rural Water Supply Framework Agreement are set out under the section headed "II. 2025 HUANGYAN URBAN AND RURAL WATER SUPPLY FRAMEWORK AGREEMENT" in the Letter from the Board.

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

Having considered the above and the respective background information of the Group and Huangyan Urban and Rural Water Supply, we concur with the Directors' view that the transactions contemplated under the 2025 Huangyan Urban and Rural Water Supply Framework Agreement, including the Proposed Annual Caps, are entered into in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

2.2 Principal terms the 2025 Huangyan Urban and Rural Water Supply Framework Agreement

Subject matter

For the 2025 Huangyan Urban and Rural Water Supply Framework Agreement

Pursuant to the 2025 Huangyan Urban and Rural Water Supply Framework Agreement, the parties agreed that the Group shall provide raw water supply services to Huangyan Urban and Rural Water Supply for the three years ending 31 December 2027.

Pricing basis

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

Payment term

Payment for the transactions contemplated under 2025 Huangyan Urban and Rural Water Supply Framework Agreement shall be made every month on the basis of the volume of water supplied by the Group.

Comparison of terms with Independent Third Parties

We have discussed with the representatives of the Group, the pricing basis and payment terms of the 2025 Huangyan Urban and Rural Water Supply Framework Agreement as set out above and the relevant terms under the Existing CCT Agreement. We have also obtained and reviewed 6 selected samples of raw water supply agreements signed with independent third parties (the "**Sample Contracts**") provided by the Group. Based on our discussion with the Group's representatives, the Sample Contracts already represented all the raw water supply agreements of the Group with

independent third parties, and thus we consider the Sample Contracts that we have selected and reviewed to be fair and representative. Having compared the pricing basis for the raw water charged to Huangyan Urban and Rural Water Supply, respectively, with the pricing basis in the Sample Contracts and based on the aforementioned discussion with the representatives of the Group, we noted that the same pricing basis is consistently adopted where the unit prices charged are based on the water price determined and approved by Taizhou DRC. Furthermore, in assessing whether the payment term in the water supply agreements with Huangyan Urban and Rural Water Supply is fair and reasonable, we have reviewed the Sample Contracts and noted that their payment term is consistent with those stipulated in the 2025 Huangyan Urban and Rural Water Supply Framework Agreement.

Based on the above, we consider that the pricing basis and the payment term in relation to the 2025 Huangyan Urban and Rural Water Supply Framework Agreement and the transactions contemplated thereunder are on normal commercial terms and are set at a fair and reasonable basis.

2.3 *The Proposed Annual Caps*

For the 2025 Huangyan Urban and Rural Water Supply Framework Agreement

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

	Year ended/ending on 31 December					
	2022	2023	2024	2025	2026	2027
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Historical transaction amount of raw water supply services to Huangyan Urban and Rural Water Supply	50,007	49,016	Nil (up to the Latest Practicable Date)	N/A	N/A	N/A
Annual Cap	55,250	56,790	58,480	N/A	N/A	N/A
Utilisation rate	90.5%	86.3%	N/A	N/A	N/A	N/A
Proposed Annual Caps	N/A	N/A	N/A	53,000	55,000	58,000

We have obtained and reviewed the calculation of the Proposed Annual Caps from the Company and discussed with the representatives of the Group regarding the basis for determining the Proposed Annual Caps. We understand that the Proposed Annual Caps are determined with reference to the Group's projection of sales and the water supply capacity to Huangyan Urban and Rural Water Supply for the years ending 31 December 2025 to 2027,

the basis of which has taken into consideration of (i) the unaudited historical transaction amounts with Huangyan Urban and Rural Water Supply for the eight months ended 31 August 2024 provided by the Group; and (ii) the growing demand for raw water.

(i) Historical transaction amounts

Based on our discussion with the representatives of the Group and the unaudited financial information in respect of the eight months ended 31 August 2024 provided to us, the sales amounts to Huangyan Urban and Rural Water Supply for the eight months ended 31 August 2024 were approximately RMB33.7 million, which accounted for only approximately 57.6% of the historical annual cap for 2024. As a result, the Directors determined to set the proposed annual cap for the year ending 31 December 2025 at approximately RMB53.0 million as compared to the historical annual cap for the year ending 31 December 2024 of approximately RMB58.5 million.

(ii) Growing demand for raw water

Based on the information provided by the Group, the raw water supplied to Huangyan Urban and Rural Water Supply for the eight months ended 31 August 2024 increased slightly by approximately 1.5%, as compared with their consumption in the corresponding period in 2023. In addition, based on our discussion with the representatives of the Group, Huangyan Urban and Rural Water Supply has commenced the construction of four new water pumping stations and are expected to be put into use in 2025. Such development is anticipated to increase the water supply capacity of Huangyan Urban and Rural Water Supply and enhance the water supply available to the general public in Taizhou, thereby increasing the demand of water from the Group. The Proposed Annual Cap will therefore ensure a stable supply of raw water from the Group to respond to the increase in market demands.

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

However, the Proposed Annual Caps under the 2025 Huangyan Urban and Rural Water Supply Framework Agreement are determined based on information currently available to the Company and the analysis as set out above, and the utilisation of the Proposed Annual Caps refer to future events associated with factors and uncertainties which may beyond the control of the Management. Hence, we express no opinion as to the accuracy and the actual utilisation of the Proposed Annual Cap under the 2025 Huangyan Urban and Rural Water Supply Framework Agreement.

INTERNAL CONTROL AND ANNUAL REVIEW OF THE CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Letter from the Board, the Company has adopted the following internal control procedures to ensure the transactions under the 2025 Huangyan Urban and Rural Water Supply Framework Agreement are in the interests of the Group and the Shareholders as a whole and in the compliance with the Listing Rules:

- (i) The finance department of the Company shall regularly monitor the caps of connected transactions, count the accumulated amounts of transactions with Huangyan Urban and Rural Water Supply by the end of the month on a monthly basis and report to the Management the unutilised balance of the annual caps by the end of each month, to ensure the applicable annual caps are not exceeded. When the projected transaction amount approaches or reaches the applicable annual caps, the Company shall revise the annual cap in accordance with the internal control procedures governing the connected transactions;
- (ii) The finance department of the Company will regularly keep abreast of the changes in policies for the water price promulgated by Taizhou DRC from time to time to ensure that the water price approved by the government authorities is timely executed;
- (iii) The production departments of the Group will closely monitor and report any circumstances which may have impact on the applicable annual cap under the 2025 Huangyan Urban and Rural Water Supply Framework Agreement such as water price adjustment as fixed and promulgated by the relevant government authorities;
- (iv) The external auditors of the Group will issue a letter to the Board in relation to the continuing connected transactions, including the transactions under the 2025 Huangyan Urban and Rural Water Supply Framework Agreement, for each financial year in accordance with Rule 14A.56 of the Listing Rules; and
- (v) The independent non-executive Directors of the Company will conduct an annual review with respect to the continuing connected transactions, including the transactions under the 2025 Huangyan Urban and Rural Water Supply Framework Agreement for each financial year, and give confirmation in accordance with Rules 14A.55 and 14A.71 of the Listing Rules.

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

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

As part of our independent work performed, we have discussed with management to understand the aforementioned internal control procedures and have obtained and reviewed the relevant internal control policy. We have also reviewed sample documents in relation to the abovementioned internal control measures, including the monthly management report of the accumulated amounts of continuing connected transactions and the water price adjustment notice promulgated by the relevant government authorities, and we noted that the above internal control measures are properly adopted.

We noted from the above the Group has adopted a set of internal control procedures governing the Group's transactions with Huangyan Urban and Rural Water Supply and considered that the procedures in place provide reasonable assurance that the conduct of the continuing connected transactions would be governed by the management level and in compliance with the terms and conditions as stated in the 2025 Huangyan Urban and Rural Water Supply Framework Agreement. Further, we noted from the annual report of the Group for the year ended 31 December 2023, that the auditor of the Company has reported on the Group's continuing connected transactions (including the transactions under the Existing CCT Agreement) in accordance with Rule 14A.56 of the Listing Rules and the independent non-executive Directors have also reviewed and confirmed that each of the continuing connected transactions of the Group (including the transactions under the Existing CCT Agreement) during the year ended 31 December 2023 has been (i) entered into in the ordinary and usual course of business of the Group; (ii) conducted on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholder as a whole.

In light of the above, we are of the view that appropriate measures have been in place to govern the conduct of the continuing connected transactions under the 2025 Huangyan Urban and Rural Water Supply Framework Agreement and safeguard the interests of the Independent Shareholders and the Company as a whole.

RECOMMENDATION

Having taken into account the factors and reasons as stated above, we consider that the terms of the 2025 Huangyan Urban and Rural Water Supply Framework Agreement, including the Proposed Annual Cap, are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM for approving the continuing connected transactions.

Yours faithfully,
For and on behalf of
Honestum International Limited



Michael Chum
Chairman



Jacky Chu
Associate Director

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