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中國水務集團有限公司*

China Water Affairs Group Limited

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 855)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

FRAMEWORK AGREEMENT

Reference is made to the Company's announcement dated 28 February 2020 relating to the supply of the Products from the JV Company to the Group under the Existing Framework Agreement.

The Existing Framework Agreement shall expire on 31 March 2023. On 16 February 2023 after trading hours, Silver Dragon and the JV Company entered into the Framework Agreement pursuant to which the JV Company has agreed to supply the Products to the Group for a term of 3 years commencing from 1 April 2023.

LISTING RULES IMPLICATIONS

The JV Company is a non-wholly owned subsidiary of the Company. ORIX CHINA holds 20% of the equity interest in the JV Company. ORIX CHINA is a subsidiary of ORIX Corporation which is a substantial shareholder of the Company. The JV Company therefore is a connected subsidiary of the Company. The transactions under the Framework Agreement constitute continuing connected transactions for the Company. Since the relevant percentage ratios under the Listing Rules are less than 5%, the transactions under the Framework Agreement are subject to the reporting and announcement requirements but are exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

Reference is made to the Company's announcement dated 28 February 2020 relating to the supply of the Products from the JV Company to the Group under the Existing Framework Agreement.

The Existing Framework Agreement shall expire on 31 March 2023. Therefore the JV Company and Silver Dragon entered into the Framework Agreement for the supply of the Products to the Group for a terms of 3 years commencing from 1 April 2023.

FRAMEWORK AGREEMENT

Date

16 February 2023

Parties

- (1) Silver Dragon; and
- (2) the JV Company.

Silver Dragon is a wholly owned subsidiary of the Company.

The JV Company is a non-wholly owned subsidiary of the Company and is principally engaged in research and development, production and sale of pipeline direct drinking equipment, water purification technical consultant services, production, sale and services of water purification equipment, water treatment engineering installation and technical services; research and development and production of water treatment equipment automation control system; development and promotion of intelligent water and Internet of Things system software.

The JV Company is owned as to 55% by Silver Dragon, 15% by Toray Industries, Inc (東麗株式會社) (“**Toray**”), 20% by ORIX CHINA and 10% by 新余銀龍水務設備有限公司 (Xinyu Silver Dragon Water Equipment Co. Ltd.*) (“**Xinyu Silver Dragon**”).

TORAY is a company listed in Japan and is a world renowned high-tech multinational with core technologies in organic synthesis, polymer chemistry and biochemistry. It offers integrated skills and expertise in water and wastewater treatment technologies and a comprehensive range of water treatment membrane technology and products. According to the latest annual report of Toray, its largest shareholder is The Master Trust Bank of Japan, Ltd. (Trust Account) holding 17.08% of the total issued shares.

ORIX CHINA is a wholly owned subsidiary of ORIX Corporation and is principally engaged in finance leases, structured financing, investment consultant, equity investment and other comprehensive financial services.

ORIX Corporation is a company listed in Japan and the United States of America. It is a leader in numerous domains including leasing, financing, investment, life insurance, banking, asset management, automobile-related services, real estate, environment and energy services. According to the latest annual report of ORIX Corporation, its largest shareholder is The Master Trust Bank of Japan, Ltd. (Trust Account) holding 18.82% of the total issued shares.

Xinyu Silver Dragon is principally engaged in design, production and sale of non-negative pressure water supply and electrical equipment. The ultimate beneficial owners of Xinyu Silver Dragon are third parties independent of the Company and its connected persons except for certain directors of the Company's subsidiaries who in aggregate own no more than 50% of Xinyu Silver Dragon.

Term

From 1 April 2023 to 31 March 2026

Subject matter

The JV Company has agreed to supply to the Group the Products during the term of the Framework Agreement which will be used by the Group in connection with its direct drinking water business. Each transaction shall be effected by a separate sale and purchase agreement to be entered into between the JV Company and the Group. The particulars of the Products, including but not limited to the type, price and quantity shall be agreed by the parties under each purchase.

Pricing

The prices of the Products shall be agreed by the parties under each purchase and are determined by the production costs of the Products plus a profit margin and with reference to the market prices of similar products in the market.

In determining the price of the Products, the JV Company and the Group will refer to the market prices of similar products in the market for the last 3 months. Since the JV Company possesses the necessary technical expertise and information on the production costs of the Products, it is able to make an assessment of the approximate range of profit margin of similar products based on the technical specifications of such products. The JV Company will also provide to the Group the production costs of its Products with detailed specifications. The JV Company and the Group will then determine the price of the Products based on the production costs of the Products plus a profit margin no higher than those of similar products in the market.

The Directors consider that the above pricing mechanism will ensure that the price of the Products will be determined based on the production costs and at a profit margin comparable to similar products in the market and are on normal commercial terms.

In any event the price of any Products purchased by the Group should not be higher than the price offered by the JV Company to any independent third party.

Annual cap

The expected maximum annual transaction amounts under the Framework Agreement for the following periods shall be as follows:

Period	Annual cap
1 April 2023 to 31 March 2024	RMB50,000,000
1 April 2024 to 31 March 2025	RMB80,000,000
1 April 2025 to 31 March 2026	RMB120,000,000

Basis for determining the annual cap

In arriving at the above annual caps, the Directors had considered:

- (a) the actual amount of similar previous transactions between the Group and the JV Company for the years ended 31 March 2021 and 31 March 2022 and for the nine months ended 31 December 2022 being RMB4,897,000, RMB23,118,000 and RMB24,460,000 respectively;
- (b) the estimated demands of the Group for the Products for the three financial years ending 31 March 2024, 2025 and 2026, based on the overall business planing for expanding pipeline direct drinking water projects nationwide which is a strategic key driver for the Group's water supply business and the expected strong rebound in the market after easing of the restriction measures in the PRC due to the COVID-19 pandemic; and
- (c) the estimated production capacity of the JV Company for the Products.

REASONS AND BENEFITS OF THE FRAMEWORK AGREEMENT

The Group is principally engaged in the water supply business and environmental protection business which comprised provision of sewage treatment and drainage operation and construction services, solid waste and hazardous waste business, environmental sanitation and water environment management.

The provision of pipeline direct drinking service is one of the key strategies of the Group in developing its water supply business. The Products supplied by the JV Company make use of leading water treatment technology and are the core processing units in pipeline direct drinking systems. It is expected that the use of the Products by the Group will facilitate the development of its pipeline direct drinking business.

The Directors (including the independent non-executive Directors) consider that the terms of the Framework Agreement to be fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and in the interest of the Group and the Shareholders as a whole. Mr. Makoto Inoue, being a director of ORIX Corporation, is materially interested in the Framework Agreement and has abstained from voting at the board meeting approving the Framework Agreement.

LISTING RULES IMPLICATIONS

The JV Company is a non-wholly owned subsidiary of the Company. ORIX CHINA holds 20% of the equity interest in the JV Company. ORIX CHINA is a subsidiary of ORIX Corporation which is a substantial shareholder of the Company. The JV Company therefore is a connected subsidiary of the Company. The transactions under the Framework Agreement constitute continuing connected transactions for the Company. Since the relevant percentage ratios under the Listing Rules are less than 5%, the transactions under the Framework Agreement are subject to the reporting and announcement requirements but are exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and phrases have the following meanings:

“Board”	the board of directors of the Company
“Company”	China Water Affairs Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Existing Framework Agreement”	the existing framework agreement dated 28 February 2020 made between the Company and JV Company for the supply of the Products to the Group for a term of 3 years commencing from 1 April 2020
“Framework Agreement”	the framework agreement dated 16 February 2023 made between Silver Dragon and the JV Company for the supply of the Products to the Group
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“JV Company”	江西銀麗直飲水設備有限公司 (Jiangxi Yinli Direct Drinking Equipment Co. Ltd.*)

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“ORIX CHINA”	ORIX China Investment Corporation (歐力士(中國)投資有限公司)
“PRC”	The People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Products”	Pipeline direct drinking system related equipment and services
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Silver Dragon”	Silver Dragon Water Supply Group Limited (銀龍供水集團有限公司), a wholly owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules

By order of the Board
China Water Affairs Group Limited
Duan Chuan Liang
Chairman

Hong Kong, 16 February 2023

As at the date of this announcement, the Board comprises five executive Directors, being Mr. Duan Chuan Liang, Ms. Ding Bin, Ms. Liu Yu Jie, Mr. Li Zhong and Mr. Duan Jerry Linnan, three non-executive Directors, being Mr. Zhao Hai Hu, Mr. Makoto Inoue and Ms. Wang Xiaoqin, and four independent non-executive Directors, being Mr. Chau Kam Wing, Mr. Siu Chi Ming, Ms. Ho Ping and Ms. Zhou Nan.

* *For identification purposes only*