



红日资本有限公司
RED SUN CAPITAL LIMITED

17 September 2025

To: *The Independent Shareholders and the Independent Board Committee of
Prosper Construction Holdings Limited*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTION
IN RELATION TO THE ENTERING INTO OF
THE NEW PRODUCTS SALE AND PURCHASE FRAMEWORK AGREEMENT**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the transactions contemplated under the New Products Sale and Purchase Framework Agreement (the “**Continuing Connected Transactions**”) (including the Proposed Caps for the three years ending 31 December 2027, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 17 September 2025 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

Reference is made to the announcement of the Company dated 18 July 2025 (the “**Announcement**”). On 18 July 2025, Shui Fung Trading (a wholly-owned subsidiary of the Company), entered into the New Products Sale and Purchase Framework Agreement with Shenzhen Defu. The New Products Sale and Purchase Framework Agreement supersedes and replaces the Products Sale and Purchase Framework Agreement previously entered into by the same parties on 17 April 2025. Pursuant to the terms of the New Products Sale and Purchase Framework Agreement, Shui Fung Trading and/or its subsidiaries agreed (as part of its trading operation) to purchase branded consumer electronic products (i.e. the Products) from Shenzhen Defu. The New Products Sale and Purchase Framework Agreement shall be effective upon the Independent Shareholders’ approval at the EGM and until 31 December 2027.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio calculated in accordance with Rule 14.07 of the Listing Rules in respect of the Proposed Caps exceeds 5%, the transactions contemplated under the New Products Sale and Purchase Framework Agreement (including the Proposed Caps) are subject to the reporting, announcement, annual review, circular (including independent financial adviser) and independent shareholders' requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, Shenzhen Defu is a 51%-owned subsidiary of the Haifa Group, which is the ultimate holding company and one of the controlling shareholders of the Company and indirect holds 62.25% of the issued share capital of the Company. Shenzhen Defu is, therefore a connected person of the Company and the entering into of the New Products Sale and Purchase Framework Agreement between Shui Fung Trading and Shenzhen Defu and the transactions thereunder will constitute a continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

An EGM will be convened at which an ordinary resolution will be proposed for the Independent Shareholders to consider, and if thought fit, to approve the New Products Sale and Purchase Framework Agreement and the transactions contemplated thereunder.

As set out in the Letter from the Board, executive Directors Mr. Jiang Hongchang, Mr. Liu Yutao, and Mr. Li Chunxiao are abstained from voting on the relevant Board resolutions approving the New Products Sale and Purchase Framework Agreement due to potential conflict of interests. Save as the abovementioned, none of the Directors has a material interest in the New Products Sale and Purchase Framework Agreement and the transactions contemplated thereunder and therefore no other Director has abstained from voting on the relevant board resolution.

THE INDEPENDENT BOARD COMMITTEE

The Board currently comprises executive Directors Mr. Jiang Hongchang, Mr. Liu Yutao, Mr. Du Jianzhi, Mr. Zhou Hongbao and Mr. Li Chunxiao; and independent non-executive Directors Mr. Cheung Chi Man Dennis, Ms. Chen Yan and Mr. Liu Junchun.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr, Cheung Chi Man Dennis, Ms. Chen Yan and Mr. Liu Junchun has been formed to advise the Independent Shareholders on whether the New Products Sale and Purchase Framework Agreement, including the Proposed Caps, and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We, Red Sun Capital Limited, has been appointed by the Board with the approval of the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we are independent from and not connected with the Company, Shui Fung Trading, and Shenzhen Defu and their respective shareholders, directors or chief executives, or any of their respective associates and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the New Products Sale and Purchase Framework Agreement and the transactions contemplated thereunder. Save for our appointment as the independent financial adviser in respect of the renewal of continuing connected transactions in relation to the 2024 Construction Services Framework Agreement, details of which are set out in the circular of the Company dated 7 December 2023, we have not acted as an independent financial adviser to the Company under the Listing Rules in the past two years. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Group that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent from the Group pursuant to Rule 13.84 of the Listing Rules.

BASIS AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied on the statements, information, opinions, and representations contained or referred to in the Circular and the information and representations provided to us by the Group, its senior management (the “**Management**”) and/or the Directors. We have assumed that all information, representations and opinions contained or referred to in the Circular or made, given or provided to us by the Company, the Directors and the Management, for which they are solely and wholly responsible, were true and accurate and complete in all material respects at the time when they were made and continue to be so as at the Latest Practicable Date. We have assumed that all statements, information, opinions, and representations made by the Directors in the Circular have been reasonably made after due and careful enquiry. The Directors and the Management confirmed to the best of their knowledge after making reasonable enquiries, no material facts have been omitted from the information provided and referred to in the Circular.

We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

We consider that we have been provided with sufficient information and documents to enable us to reach an informed view and to provide a reasonable basis for our advice. In formulating our recommendation in relation to the New Products Sale and Purchase Framework Agreement, we have obtained and reviewed documents, including among others, (i) the New Products Sale and Purchase Framework Agreement; (ii) the interim results announcement of the Company for the six months ended 30 June 2025 (the “**2025 Interim Results Announcement**”); (iii) the annual report for the year ended 31 December 2024 (the “**2024 Annual Report**”) of the Company; (iv) the announcements in relation to the Products Sale and Purchase Framework Agreement dated 17 April 2025 and 16 May 2025, respectively; (v) internal control manual and sampled historical transaction documents in relation to transactions contemplated under the Products Sale and Purchase Framework Agreement; (vi) Annual Cap Schedule (defined hereafter) prepared by the Management; and (vii) the Letter from the Board set out in the Circular. We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection for their consideration of the terms of the New Products Sale and Purchase Framework Agreement, including the Proposed Caps, and the transactions contemplated thereunder. This letter is not to be quoted or referred to, in whole or in part, or shall be used for any other purposes without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the New Products Sale and Purchase Framework Agreement we have considered the following principal factors and reasons:

1. Background information of the Group

The Company is an investment holding company incorporated in the Cayman Islands with limited liability. As at the Latest Practicable Date, the principal activities of the Group are the provision of marine construction services, auxiliary marine related services and trading, sales and distribution business.

Financial performance of the Group

Set out below is a summary of the Group's financial performance for the six months ended 30 June 2024 and 2025, and the two years ended 31 December 2023 and 2024, which were extracted from the Company's 2025 Interim Results Announcement and the 2024 Annual Report, respectively:

	For the six months ended 30 June		For the year ended 31 December	
	2025	2024	2024	2023
	(<i>unaudited</i>)	(<i>unaudited</i>)	(<i>audited</i>)	(<i>audited</i>)
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Revenue	894,705	508,954	1,631,308	2,125,871
– Marine construction works	29,822	38,289	55,427	104,533
– Provision of auxiliary marine related service	3,572	2,670	4,205	69,528
– Provision of general construction contracting services	767,262	467,995	1,571,676	1,951,810
– Procurement and trading	94,049	N/A	N/A	N/A
Gross profit	53,386	35,357	130,128	181,097
Loss for the year/period attributable to the owners of the Company	(60,943)	(53,588)	(159,101)	(188,898)

Financial performance for the six months ended 30 June 2025 and 2024

As set out in 2025 Interim Results Announcement, the Group recorded revenue of approximately HK\$894.7 million for the six months ended 30 June 2025, representing an increase of approximately 75.8% from approximately HK\$509.0 million for the six months ended 30 June 2024. Such was mainly due to (i) the increase in revenue from the general construction contracting segment of approximately HK\$299.3 million as the Group has commenced work for key projects in newly expanded geographic locations; and (ii) revenue recognised from the procurement and trading segment of approximately HK\$94.0 million, which is a new line of business commenced during the six months ended 30 June 2025. The Group also recorded an increase in gross profit of approximately HK\$18.0 million during the six months ended 30 June 2025 as compared to approximately HK\$35.4 million during the six months ended 30 June 2024.

During the six months ended 30 June 2025, the Group recorded a loss attributable to owners of the Company of approximately HK\$60.9 million, representing an increase of approximately 13.7% as compared to the six months ended 30 June 2024, which was mainly attributable to the net effects of (i) an increase in gross profit by approximately HK\$18.0 million driven by revenue growth, which was offset by (ii) a reduction in other gains of approximately HK\$6.3 million; (iii) an increase in research and development expenses by approximately HK\$2.8 million; (iv) an increase in finance costs by approximately HK\$2.5 million; (v) a reduction in income tax credit of approximately HK\$4.1 million; and (vi) an increase in other administrative expenses of approximately HK\$1.3 million.

Financial performance for the year ended 31 December 2024 and 2023

As set out in the 2024 Annual Report, the Group recorded revenue of approximately HK\$1,631.3 million for the year ended 31 December 2024, representing a decrease of approximately 23.3% from approximately HK\$2,125.9 million for the year ended 31 December 2023, while the Group's gross profit amounted to approximately HK\$130.1 million and approximately HK\$181.1 million for the year ended 31 December 2024 and 2023, respectively. The decrease in revenue was mainly caused by the decrease in revenue from the Group's marine construction segment and general construction business segment, as the marine construction market in Hong Kong and Macau remained slow, the Group refrained from engaging in projects in Pakistan attributable to domestic political and economic unrest, and a sizeable project located in the Philippines was suspended due to force majeure factors, while the general construction business segment was affected by the bleak conditions of the real estate market with the launch of the Group's potential projects experiencing delayed.

For the year ended 31 December 2024, the Group recorded a loss attributable to the owners of the Company of approximately HK\$159.1 million as compared to approximately HK\$188.9 million for the year ended 31 December 2023, representing a decrease of approximately 15.8%, attributable to (i) the decrease in revenue as disclosed above; (ii) further provision of approximately HK\$61.3 million was recorded for impairment of financial assets, which was partly alleviated by the reduction in other administrative expenses by approximately HK\$44.1 million; and (iii) an increase in finance costs of approximately HK\$13.7 million during the year ended 31 December 2024.

Financial position of the Group

Set out below is a summary of the financial position of the Group as at 31 December 2023, 2024 and 30 June 2025, which were extracted from the 2024 Annual Report and 2025 Interim Results Announcement, respectively:

	As at 30 June 2025 (unaudited) (HK\$'000)	As at 31 December 2024 (audited) (HK\$'000)	2023 (audited) (HK\$'000)
Non-current assets	463,447	448,603	481,762
Current assets	4,664,235	4,831,765	4,553,842
Non-current liabilities	426,655	361,502	211,824
Current liabilities	4,449,547	4,613,010	4,343,305
Total equity	251,480	305,856	480,475

Financial position as at 30 June 2025 and 31 December 2024

Total assets of the Group amounted to approximately HK\$5,127.7 million as at 30 June 2025, which was largely stable as compared to approximately HK\$5,280.4 million as at 31 December 2024. Such movement was mainly attributable to (i) the decrease in trade, retention and note receivables of approximately HK\$221.6 million; and (ii) the decrease in amounts due from fellow subsidiaries of approximately HK\$165.7 million; and partly offset by (i) the increase in contract assets of approximately HK\$190.0 million; and (ii) the increase in restricted cash of approximately HK\$39.9 million.

Total liabilities of the Group amounted to approximately HK\$4,876.2 million as at 30 June 2025, which was broadly in line with total liabilities of the Group of approximately HK\$4,974.5 million as at 31 December 2024. Such movement was mainly due to the net effects of (i) the decrease in accruals and other payables of approximately HK\$44.4 million; (ii) the decrease in borrowings of approximately HK\$199.7 million; (iii) the decrease in contract liabilities of approximately HK\$28.6 million; (iv) the decrease in amount due to ultimate holding company of approximately HK\$34.8 million; (v) the decrease in trade, retention and notes payables of approximately HK\$23.0 million; and (vi) the increase in corporate bonds of approximately HK\$236.0 million.

As a result, total equity decreased from approximately HK\$305.9 million as at 31 December 2024 to approximately HK\$251.5 million as at 30 June 2025.

Financial position as at 31 December 2024 and 31 December 2023

Total assets of the Group amounted to approximately HK\$5,280.4 million as at 31 December 2024 as compared to approximately HK\$5,035.6 million as at 31 December 2023. Such increase was mainly due to (i) the increase in trade, retention and notes receivables of approximately HK\$75.6 million; (ii) the increase in amounts due from fellow subsidiaries of approximately HK\$31.0 million; (iii) the increase in pledged bank deposits of approximately HK\$85.2 million; and (iv) the increase in restricted cash of approximately HK\$46.2 million.

Total liabilities of the Group amounted to approximately HK\$4,974.5 million as at 31 December 2024 and approximately HK\$4,555.1 million as at 31 December 2023, respectively, representing an increase of approximately 9.2%. The increase in total liabilities as at 31 December 2024 as compared to as at 31 December 2023 was mainly attributable to the increase in (i) trade, retention and notes payables of approximately HK\$253.9 million; and (ii) loan from an intermediate holding company of approximately HK\$129.0 million. As at 31 December 2024, total liabilities mainly included (i) trade, retention and notes payables of approximately HK\$2,620.4 million; and (ii) borrowings (current portion) of approximately HK\$1,361.1 million.

As a result, total equity decreased from approximately HK\$480.5 million as at 31 December 2023 to approximately HK\$305.9 million as at 31 December 2024.

2. Information of all parties to the New Products Sale and Purchase Framework Agreement

2.1 Shui Fung Trading

As set out in the Letter from the Board, Shui Fung Trading is a company established in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company. It is principally engaged in the trading, sales and distribution of a variety of products overseas.

2.2 Shenzhen Defu

As set out in the Letter from the Board and as advised with the Management, Shenzhen Defu is a company incorporated in the PRC with limited liability and is 100% owned by Nanjing Sample Technology Company Limited* (南京三寶科技集團有限公司), which is principally engaged in the sales of traditional Chinese medicine, smart traffic and transport business and cross border consumer electronics business and is indirectly owned as to 51% by the Haifa Group and 49% by an Independent Third Party. Shenzhen Defu is principally engaged in the procurement, export and supply chain management business of branded consumer electronics, leveraging extensive procurement channels in the PRC.

2.3 Haifa Group

As set out in the Letter from the Board, Qingdao Haifa State-owned Capital Investment and Operation Group Co., Ltd is the ultimate holding company of the Company and indirectly holds 62.25% of the total issued share capital of the Company and a state-owned enterprise wholly-owned by the State-owned Asset Supervision and Administration Commission of Qingdao. It is principally engaged in capital operations and industry-finance services, infrastructure construction and operation, shipping logistics and international trade, film and visual media culture investment and operation.

3. Reasons for and benefits of the entering into the New Products Sale and Purchase Framework Agreement

We have summarised the reasons for and benefits of the New Products Sale and Purchase Framework Agreement below.

As members of the Haifa Group, the Party A Group and the Party B Group possess aligned strategic interests. The selection of the Party B Group as a primary supplier is a strategic decision based on fair market pricing. This arrangement allows the Party A Group to leverage Party B Group's domestic sourcing channels to enhance the Party A Group's market competitiveness.

In addition, we have reviewed the announcement of the Company dated 17 April 2025 in relation to the Products Sale and Purchase Framework Agreement and noted that, while the Group is principally engaged in marine engineering business and general construction contracting business, given the uncertainty in the construction industry in recent years shown by the diminished revenue from the Group's operation, the Group has established Shui Fung Trading in 2024 with the purpose to further develop its international trading business in the supply chain as a new business growth focus. As Shenzhen Defu has been established in the international trading business for years and possesses professional advantage in the procurement channel for branded consumer electronic products, the engagement of Shenzhen Defu as an upstream supplier is a strategic decision based on fair market pricing, and is expected to provide convenient and efficient procurement services to Shui Fung Trading.

Furthermore, based on our discussion with the Management, we noted that given the large range of products offered by Shenzhen Defu, this procurement arrangement is expected to enhance the ability of Shui Fung Trading to meet client's demands with different product specifications in an effective manner while maintaining quality in their products for its ordinary and usual course of business.

Moving forward, the Group envisaged that there would be an increasing demand of branded consumer electronic products in the PRC in light of its additional projects secured as well as to cater its growing business led by the PRC government measures as discussed in the sub-section below "5.1 Overview of the PRC economy and consumer goods industry". The Directors are of the view that the entering into of the New Products Sale and Purchase Framework Agreement provides an excellent opportunity for the Group to expand its portfolio into the electronic goods market and to foster a long-standing business relationship, which is in line with the strategic deployment of resources and the operational development of the Group.

Having considered the reasons as set out above, in particular, (i) the Company considered Party B Group to be a reliable supplier of consumer electronic products; (ii) the reputation of Shenzhen Defu in the export trade business and its established positioning in the procurement channels; (iii) the ongoing business intention of the Group to strengthen its procurement abilities in this business area and broaden its product offerings; (iv) the expected stable demand in the consumer electronic products as discussed in the section headed "5. Our analysis on the Proposed Caps" in this letter below; and (v) the internal control measures adopted by the Company as well as the terms of the New Products Sale and Purchase Framework Agreement are fair and reasonable as discussed below, we concur with the view of the Directors that the entering into of the New Products Sale and Purchase Framework Agreement is in the interests of the Company and the Shareholders as a whole.

4. Our analysis on the principal terms of the New Products Sale and Purchase Framework Agreement

4.1 Principal terms of the New Products Sale and Purchase Framework Agreement

The principal terms of the New Products Sale and Purchase Framework Agreement are as follows:

Date	18 July 2025 (after trading hours)
Parties	(i) Shui Fung Trading (“Party A”); and (ii) Shenzhen Defu (“Party B”)
Term	The New Products Sale and Purchase Framework Agreement shall be effective upon the Independent Shareholders’ approval at the EGM until 31 December 2027 (both days inclusive)
Subject matters	Shui Fung Trading and/or its subsidiaries (collectively referred to as the “Party A Group”) shall procure the Products from Shenzhen Defu and/or its subsidiaries (collectively referred to as the “Party B Group”)
Pricing	The Party A Group and the Party B Group mutually agree that the purchase and sale of the Products under the New Products Sale and Purchase Framework Agreement shall be on arm’s length basis and on normal commercial terms. The pricing of the purchase and sale of the Products shall be determined with reference to the market price. To be selected as a supplier, the Party B Group is required to participate in the standard tendering processes conducted by the Party A Group. The management of Party A Group establishes transaction prices and terms by securing at least three quotations from suppliers (which may include Party B Group) for same products or products of a similar nature. This process ensures that the terms are fair and reasonable, and aligned with prevailing market standards. By comparing these quotations, Party A Group can be sure that the prices and conditions offered are no less favourable than those offered by independent suppliers. Please refer to the paragraph headed “Internal Control” in the Letter from the Board for details of the Group’s established procurement procedures.

Where no market price is available for the Products, the price shall be determined by mutual agreement between the parties. In instances where comparable market transactions are insufficient to verify adherence to normal commercial terms, the negotiated price shall satisfy the following objective standard: it must not be less favourable to the Party A Group than either (i) prevailing market terms offered by Independent Third Parties to the Party A Group, or (ii) market terms extended by the Party B Group to the Independent Third Parties. Party A could request Party B to submit documented proof, such as contracts or invoices, detailing prices and terms extended to other independent buyers.

- Payment terms** The transactions under the New Products Sale and Purchase Framework Agreement will be paid and settled in cash, and shall be paid and settled according to the time and manager agreed in the individual purchase contracts being entered into.
- Proposed Caps** Set out below is the annual cap for the transactions contemplated under the New Products Sale and Purchase Framework Agreement:

	For the year ending 31 December		
	2025	2026	2027
Proposed Caps	RMB800 million	RMB1,200 million	RMB1,600 million

4.2 Internal control procedures

As set out in the Letter from the Board, the Group has adopted the following internal control procedures to govern the continuing connected transactions of the Group under the New Products Sale and Purchase Framework Agreement and the Proposed Caps:

- (i) the Tender and Audit Department of the Group will closely monitor and record the actual transaction amounts of the continuing connected transactions under the New Products Sale and Purchase Framework Agreement to ensure that the Proposed Caps will not be exceeded;
- (ii) the Tender and Audit Department of the Group will compare the prices and terms with those of the Products of a similar scale that have been entered into and/or tenders and/or quotations obtained by the Group from Independent Third Parties, including obtaining at least three quotations from third party suppliers. In the event that the tenders and/or terms of the Products are unavailable, the Group will obtain at least three quotations for the products with similar nature and scale from third party suppliers, in order to ensure the costs incurred by the Group are fair and reasonable and no less favourable than those offered by Independent Third Parties;
- (iii) the Contract Department and Purchase Department of the Group will submit the purchase plan, price comparison report, and status report to the Executive Directors before entering into an individual purchase contract;
- (iv) the Finance Department is responsible for monitoring all continuing connected transactions. It maintains a framework, including a list of connected persons and a detailed register of all transactions under New Products Sale and Purchase Framework Agreement with the Haifa Group, recording their date, nature and transaction amount. As a key preventative control, business units must verify the remaining headroom under the Proposed Cap with the Finance Department before committing to any new transaction. For ongoing oversight, the Finance Department circulates a monthly

Proposed Cap utilisation report to the Board. Furthermore, a proactive, tiered alert system is in place to prevent breaches. The Directors and relevant business units are formally notified when transaction volumes reach 75% of the Proposed Cap. Should utilisation reach 90%, a more stringent alert is triggered, requiring the Director pre-approval for all subsequent transactions under New Products Sale and Purchase Framework Agreement with the Haifa Group;

- (v) the Company's auditor will review the continuing connected transactions (which are subject to the annual review and disclosure requirements under the Listing Rules) annually and confirm whether (a) the transactions under the New Products Sale and Purchase Framework Agreement have been approved by the Board; (b) the transactions were entered into in accordance with the New Products Sale and Purchase Framework Agreement; and (c) the Proposed Caps have not been exceeded; and
- (vi) the Independent Non-executive Directors will perform annual review (which are subject to the annual review and disclosure requirements under the Listing Rules) to confirm the transactions under the New Products Sale and Purchase Framework Agreement are conducted (a) in the ordinary and usual course of the Group's businesses; (b) on normal commercial terms or better; and (c) in accordance with the New Products Sale and Purchase Framework Agreement governing them on terms that are fair and reasonable and in the interest of the Shareholders as a whole.

As discussed with the Company, we note that, to ensure that the transactions contemplated thereunder the New Products Sale and Purchase Framework Agreement are conducted on normal commercial terms, the Group's representatives shall, in particular, (i) ensure ongoing monitoring and supervision of the transaction volume under the New Products Sale and Purchase Framework Agreement in case the transaction amount has or to be incurred approach or exceed the Proposed Caps, while maintaining adequate documentation and review records performed by relevant personnels under designated departments; and (ii) conduct comparison on the prices and terms offered by Independent Third Parties against the procurement of products that are of a similar nature by connected persons to ensure the terms are determined based on arm's length negotiations between the parties, and on terms that are no less favorable to the Group than those offered by other Independent Third Parties.

For our work performed, we have obtained and reviewed documents in respect of the aforesaid procedures which involve, among others, (i) internal approval records of transactions contemplated under the Products Sale and Purchase Framework Agreement; (ii) the review of terms of relevant transactions including not less than three transactions/quotations/prevailing market price contemplated under the Products Sale and Purchase Framework Agreement; and (iii) segregation of duties among departments of the Company (including but not limited to Tender and Audit Department, Contract Department, and the Purchase Department). Based on the information from internal control records conducted during the two months ended 30 June 2025 under the Products Sale and Purchase Framework Agreement, it is noted that transactions entered into with Shenzhen Defu were subject to the comparison of quotations and/or market prices obtained from not less than two Independent Third Parties suppliers of products of a similar nature, and that approvals were granted by multiple levels of management of the Company, which was then submitted to the Directors for final approval prior to execution, and assessments were also carried out on a transaction by transaction basis to ensure the terms are in compliance with the Products Sale and Purchase Framework Agreement, which demonstrated an effective internal control procedures are in place to govern the execution of the transactions contemplated under the Products Sale and Purchase Framework Agreement.

Having considered the internal control procedures include (i) pricing and terms comparison between Independent Third Parties and connected persons prior to entering into the transactions contemplated under the New Products Sale and Purchase Framework Agreement; (ii) regular monitoring of the transaction volume by the designated departments of the Company; (iii) a series of approval requirements through layers of management of the Company; and (iv) annual review will be conducted by the independent non-executive Directors and the Company's auditor to ensure the terms of the New Products Sale and Purchase Framework Agreement have been adhered to and the Proposed Caps not to be exceeded, we consider that the effective implementation of these internal control arrangements shall ensure the transactions contemplated under the New Products Sale and Purchase Framework Agreement to be carried out in a manner that is fair and reasonable and in the interests of the Shareholders as a whole.

4.3 Pricing basis

As provided by the Management, the Products to be procured by Shui Fung Trading from Shenzhen Defu and its subsidiaries under the New Products Sale and Purchase Framework Agreement include, among others: (i) laptop and tablets; (ii) smart watch; (iii) gaming controllers; (iv) computer monitor; (v) hair straightener; (vi) hair dryer; (vii) vacuum cleaner; (viii) speakers; and (ix) earphones/headphones.

As stated in the Letter from the Board, the Party A Group and the Party B Group mutually agree that the purchase and sale of the Products under the New Products Sale and Purchase Framework Agreement shall be on arm's length negotiations and on normal commercial terms. The pricing of the purchase and sale of the Products shall be determined with reference to the market price. To be selected as a supplier, the Party B Group is required to participate in the standard tendering processes conducted by the Party A Group. The management of Party A Group establishes transaction prices and terms by securing at least three quotations from suppliers (which may include Party B Group) for similar products or products of a similar nature. This process ensures that the terms are fair and reasonable, and aligned with prevailing market standards. By comparing these quotations, Party A Group shall ensure that the prices and conditions offered are no less favourable than those offered by independent suppliers.

To assess the fairness and reasonableness of the terms as stipulated under the New Products Sale and Purchase Framework Agreement, we have obtained a breakdown of transactions in respect of the procurement of products conducted by the Group since the commencement of the Products Sale and Purchase Framework Agreement up to the date of the Announcement in relation to the New Products Sale and Purchase Framework Agreement (the "**Review Period**") and obtained and reviewed three historical transactions, all of which were comparatively large transaction amount that represents, in aggregate, over 60% of the total purchase conducted under the Products Sale and Purchase Framework Agreement (the "**Sampled Transactions**"). For each of the Sampled Transactions, the Management provided invoices regarding the purchase of Products by the Group from Shenzhen Defu and the quotations of Products of a similar nature obtained by the Group from Independent Third Party suppliers prior to entering into the Sampled Transactions. We noted that the prices payable by the Group for the purchase of products under the selected Sampled Transactions were no less favourable than the prices offered by Independent Third Parties for the purchase of the same products.

Given the Sampled Transactions already covers the majority, in terms of transactions amount, of the actual transactions conducted during the Review Period, our work of which also included the review of quotations from Independent Third Parties as comparison, and noted that the principal terms of the New Products Sale and Purchase Framework Agreement are substantially the same as the principal terms of the Products Sale and Purchase Framework Agreement, we consider the above sampled size and basis to be sufficient and representative for the purposes of our analysis. As a result, we concur with the view of the Directors and our findings demonstrated that principal terms of the New Products Sale and Purchase Framework Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

5. Our analysis on the Proposed Caps

We have reviewed the historical transaction amounts for the sales and purchase of products under the Products Sale and Purchase Framework Agreement for the year ending 31 December 2025, details of which are set out below:

	For the year ending 31 December 2025 RMB
Historical annual cap under the Products Sale and Purchase Framework Agreement (the “ Historical Annual Cap ”)	9,300,000
Transaction amount	8,250,000
	(up to the date of the Announcement)
Utilisation rate (%)	88.7%
	(up to the date of the Announcement)

Based on the information as set out in the Letter from the Board and as illustrated in the table above, the actual transaction amount under the Products Sale and Purchase Framework Agreement reached a utilisation rate of over 80% for the year ending 31 December 2025 and based on the amount of Indicative Orders (defined hereafter), the Directors consider that the Historical Annual Cap would not be sufficient, and the Proposed Cap is justifiable to ensure the flexibility and operational efficiency of the Group.

Pursuant to the New Products Sale and Purchase Framework Agreement, set out below is the Proposed Caps for the years ending 31 December 2025, 2026 and 2027, respectively.

	For the year ending 31 December		
	2025	2026	2027
	RMB' million	RMB' million	RMB' million
Proposed Caps	800	1,200	1,600
	(the “ 2025	(the “ 2026	(the “ 2027
	Annual Cap ”)	Annual Cap ”)	Annual Cap ”)

With reference to the Letter from the Board, the basis of the Proposed Caps has been summarised below:

- (i) the expected sales amount for each of the three years ending 31 December 2027, as set out in the Corporation Framework Agreements (defined hereafter) entered into between the Group and its respective customers which are Independent Third Parties. The Corporation Framework Agreements establish a framework for collaboration between the Group and the customers over a period of three years. The expected sales amount of the Products to the customers over the three-year term is outlined within the agreement. The expected sales amount is based on multiple rounds of communication between the Group's sales team and the customers, and is entered into the terms of the Cooperation Framework Agreements after confirmation by both parties. The terms of the agreements, including the stated sales expectations, are not legally binding. The aggregated expected sales amounts to these customers amounted to approximately RMB850 million, RMB1,100 million and RMB1,350 million for the three years ending 31 December 2027, respectively;
- (ii) the expected purchase amount of the Products based on the expected sales amount for each of the three years ending 31 December 2027 as mentioned above. The expected purchase amounts of the Products are derived from the expected sales amount using the expected gross profit margin generated from sale of the Products. Lower margins on bulk sales are anticipated for 2026 and 2027, which is a direct result of the volume-based pricing required to secure contracts; and
- (iii) a contingency buffer of 15.5% and 20.8%, respectively. These contingency buffers incorporate a planned expansion of the Group's distribution network of between 10% and 15% per year, as well as a yearly price increase of approximately 5%, taking into account the consumer electronics market and GDP (defined hereafter) growth in the PRC.

For further details, please refer to the section headed "Proposed Caps" as set out in the Letter from the Board.

In order to assess the fairness and reasonableness of the Proposed Caps for the New Products Sale and Purchase Framework Agreement, we have also taken into consideration the following factors:

5.1 Overview of the PRC economy and consumer goods industry

Based on information published on the website of National Bureau of Statistics of China¹, gross domestic product (“GDP”) recorded a year-on-year growth in 2024 of approximately 5.0% (2023: 5.4%), which was mainly bolstered by economic stimulus measures announced in September 2024. The PRC economy recorded a positive growth in GDP in 2024.

We also noted that the PRC government implemented measures regarding the consumers good industry, in particular, the promotion of large-scale equipment renewal and replacement of old consumer goods by providing subsidies to a series of household or digital products to support circulation and trading export businesses in the PRC. In addition to the overall GDP growth momentum, the consumer spending per capita of the PRC also demonstrated year-on-year growth of approximately 9.0% in 2023 and approximately 5.1% in 2024.

In July 2024, the National Development and Reform Commission of the PRC issued an article named “關於加力支持大規模設備更新和消費品以舊換新的若干措施”(Notice on Several Measures to Strengthen Support for Large-Scale Equipment Renewal and Consumer Goods Trade-in*)². The PRC government sets to boost consumption by offering subsidies for the purchase of digital consumer products, which will, in turn, lead to a corresponding rise in sales of consumer electronic products. It is outlined that the multi-objective optimisation framework is an important step to promoting new industrialisation and accelerating the investment and consumption in the PRC.

In August 2024, the General Administration of Customs published data with regard to the monthly export volume and the export growth rate, which remained above 5% for four consecutive months during the seven months ended 31 July 2024³, representing a year-on-year increase of approximately 6.2%. It is noted that, in particular, the consumer electronics products, including, among others, mobile phones, computers or other home appliances, have shown a positive trend in export volume while the foreign trades are largely stable.

The above PRC government policies and economic environment, including the growth in GDP of approximately 5% in 2024 and the growth in consumer spending per capita attained in 2024, may stimulate the market demand in the electronic consumable markets, in particular, the sales of electronic products and devices in the PRC which is expected to show a steady and positive momentum in the long term given the supporting PRC government policies. In view of the above, it is expected that the stable recovery of the PRC economy amid government policies shall continuously drive the growth of the consumer goods industry in the PRC.

¹ Source: <https://data.stats.gov.cn/>

² Source: https://www.gov.cn/zhengce/zhengceku/202407/content_6964409.htm

³ Source: https://www.gov.cn/lianbo/bumen/202408/content_6966941.htm

5.2 Our work performed on the basis of the Proposed Caps

We have obtained and reviewed the schedule for the Proposed Caps prepared by the Management that details the basis of the Proposed Caps including the estimated sales amount for each of the three years ending 31 December 2027 by customers (the “**Annual Cap Schedule**”).

Based on the Annual Cap Schedule, we noted that the Proposed Caps was primarily based on the indicative orders from various Independent Third-Party customers. Up to the Latest Practicable Date, the Company has entered into non-binding cooperation framework agreements* (業務合作框架協議) with six potential/existing customers (the “**Cooperation Framework Agreements**”), which outlined the indicative purchase amount proposed by each respective counter parties for the years ending 31 December 2025, 2026 and 2027. The purchase amounts set out under the Cooperation Framework Agreements, if fully executed in the respective subject years, would total to approximately RMB850 million for the year ending 31 December 2025, approximately RMB1,100 million for the year ending 31 December 2026, and approximately RMB1,350 million for the year ending 31 December 2027, which accounted for not less than 80% of the 2026 Annual Cap and 2027 Annual Cap, respectively.

As part of our work performed on the Proposed Caps, we have obtained six Cooperation Framework Agreements from the Company, being all of the framework agreements entered into by the Company up to the Latest Practicable Date (the “**Indicative Orders**”) for each of the three years ending 31 December 2025, 2026 and 2027. Based on the Indicative Orders, we noted that the indicative purchase amount from each Independent Third Party customers (the “**I3P Customers**”) ranged from not less than RMB100 million to not more than RMB300 million per annum, and the Management advised that the amount under the Indicative Orders shall cover a range of products, including, among others, (i) gaming controllers; (ii) tablets; (iii) laptops; (iv) speakers; and (v) hair electrical appliances such as hair dryer and straightener. The Management also advised that the indicative purchase amount under the Indicative Orders was determined based on, among others, the I3P Customers’ historical procurement orders/volume, as well as the anticipated demand of their end-customers.

We have obtained and reviewed records of the background checks on the aforesaid potential/existing customers, including, without limitation, their principal businesses and operating history. As advised by the Management, the principal activities of these companies mainly comprised of trading of consumer electronic products of well-known brands such as, among others, Apple, Xiaomi, JBL, Lenovo, Dyson and Bose, with established distribution channels to cater for their respective customer base across different geographical regions.

For our due diligence purpose with respect to the proposed demand as set out in the Indicative Orders, we have obtained from the Company (i) the historical annual purchase amount provided by each of the I3P Customers for the two years ended 31 December 2024 (the “**Historical Purchase Schedule**”); and (ii) sampled historical purchase records of the I3P Customers conducted during the year ended 31 December 2024 (the “**Sampled Purchase Records**”).

From reviewing the Historical Purchase Schedule, we noted an increase in amount of purchase from the majority of the I3P Customers during 2024 as compared to 2023. Save for one I3P Customer which placed less orders in 2024 as compared to 2023, the average year-on-year increase in purchase amount from the other I3P Customers was approximately 198% (the “Year-on-Year Increase”), with the year-on-year increase on purchase amount from the largest I3P Customer reaching approximately 130%.

Given the aggregate amount of the Indicative Orders, being approximately RMB850 million for the year ending 31 December 2025, approximately RMB1,100 million for the year ending 31 December 2026, and approximately RMB1,350 million for the year ending 31 December 2027, the average Year-on-Year Increase in purchase amount as well as the Company’s expansion plan in terms of sales team, customer base and additional geographical locations going forward, we concur with the Management that the growth with respect to the Proposed Caps are fair and reasonable.

With a view to evaluate the amounts set out in the Historical Purchase Schedule and the historical sales figures thereto as part of our work to assess the basis of the Indicative Orders, we randomly selected one month in 2024, namely May 2024. It is noted that, in May 2024, the monthly purchases of all I3P Customers totaled to approximately RMB100 million and we have obtained Sampled Purchase Records from the I3P Customers placed in that month. In this regard, we have attempted to obtain and review Sampled Purchase Records of not less than five purchases from each of the six individual I3P Customer placed during the said one-month period, however there were one I3P Customer whom had less than five purchase transactions during the sampled month, and thus all of the purchase transaction of such I3P Customer provided by the Company for the sampled month was obtained and reviewed. In total, we reviewed not less than 25 purchase records. Given the amount of these sampled purchase records reviewed by us account for not less than 45% of the said RMB100 million, we consider that our sample coverage is sufficient to substantiate the amount as set out in the Historical Purchase Schedule in the sampled month.

With a view to ensure our sample has sufficient coverage and to minimise the potential seasonal effects that might have on the purchase volume during the aforementioned sampled month, we conducted additional review of Sampled Purchase Records from an additional month, which was selected on a random basis in the second half of the subject calendar year given the above sampled month was in the first half of 2024. As such, our sampled period covered one month in the first half of the subject calendar year and one month in the second half of the subject calendar year, respectively.

Correspondingly, we randomly selected one month in the second half of 2024, namely December 2024 and obtained Sampled Purchase Records from the I3P Customers in that month. In December 2024, the monthly orders amounted to a total of not less than RMB100 million across all the I3P Customers. We applied a consistent approach in sample selection as previously outlined above, we have attempted to obtain and review Sample Purchase Records of not less than five purchases from each of the six individual I3P Customers in December 2024, however there were three I3P Customers whom had less than five purchase transactions during the sampled month, and thus all of the purchase transaction(s) for the aforesaid I3P Customers provided by the Company for the sampled month were obtained and reviewed. In total, we reviewed not less than 20 purchase records. Given the amount of these sampled purchase records reviewed by us totalled to not less than 90% of the said RMB100 million, we consider that the aforesaid sample coverage, together with our work performed on the May 2024 historical records, is sufficient to substantiate the amount as set out in the Historical Purchase Schedule.

In relation to the above, the Management advised that the aforesaid transactions are those provided by the I3P Customers and may not represent the entirety transactions conducted by the respective I3P Customers during the sampled two months period. Given that our review on the sampled months demonstrated the potential monthly transaction amount reached the region of approximately RMB100 million per month, which indicates an annualised amount of approximately RMB1,200 million (for illustration purposes only) based on sampled months in the first and second half of the subject calendar year selected on a random basis, respectively, which should form a reasonable basis for an indicative annualised purchase amount barring unforeseen circumstances, we therefore consider the samples reviewed by us are sufficient for the purpose of our analysis.

Having considered our observation and analysis from the above work performed, including (i) the Year-on-Year Increase in purchase amount of approximately 198%, with the year-on-year increase on purchase amount from the largest I3P Customer reaching approximately 130%, as noted from the Historical Purchase Schedule, which in turn supports the basis and growth with respect to the Proposed Caps; (ii) the purchase volume noted from the two selected months are broadly at a similar level and that it indicates an annualised amount of approximately RMB1,200 million in purchase amount derived from actual historical data from the most recent financial year which, given the available information on hand, provides a relatively reliable basis for the estimated transaction amount to be transacted with the I3P Customers and anticipated to account for a substantial portion of the Proposed Cap; and (iii) the aforementioned positive prospects of the consumer goods industry as discussed under the section headed “5.1 Overview of the PRC economy and consumer goods industry”, together with the Company’s expansion plan in terms of sales team, customer base and additional geographical locations going forward, we are of the view that the Indicative Orders is a reasonable basis of the Proposed Caps and that the Proposed Caps for the three years ending 31 December 2027 is fair and reasonable.

In relation to the pricing of the Products, we have performed, including, among others, review of (i) three quotations covering individual range of prices for a list of products obtained from independent third parties and connected person; (ii) information provided by the Management such as transaction documents and schedules, including purchase invoices contemplated under the Products Sale and Purchase Framework Agreement; as well as (iii) market research conducted by us including desktop search for the unit price of Products of the applicable model and specifications to ascertain the reasonableness of the identified price range, the historical unit price of the relevant Products, which comprised of a range of different brands, various models under these brands with different specifications, for (i) gaming controllers typically ranged from approximately USD30 to USD35 per unit; (ii) speakers and earphones typically ranged from approximately USD25 to USD270 per unit; (iii) hair electrical appliances such as hair dryer and straightener typically ranged from approximately USD280 to USD430 per unit; (iv) tablets typically ranged from approximately USD380 to USD510 per unit; and (v) laptops typically ranged from approximately USD500 to USD3,900 per unit. In this connection, we have also obtained the relevant price list and/or the respective quotation of the aforesaid products from the Company. Based on our work performed as stated above, we noted that the sampled unit price of the subject products were within the stated range of the relevant price list of the selected supplier. With a view to further assess the fairness and reasonableness of the Proposed Caps, we have also evaluated the buffer incorporated into the Proposed Caps below.

5.3 *Our analysis and work performed in relation to the buffer*

We noted that the Group has, where applicable, included a buffer in the Proposed Caps to allow for operational flexibility while the Group adapts to the changing market demand and conditions, and to accommodate unexpected increase in prices and demand of the Products. We are given to understand that the buffer was determined after considering, where applicable, (i) possible changes in prices of the Products; and (ii) potential new customers or markets to be secured by the Company. In relation to the Group's strategic plan to expand its distribution network, we have discussed with Management and understand that the Group plans to begin by expanding presence in markets where it has already established a footprint through its construction operation segment, such as Indonesia, Dubai and various regions within Central Asia. Such approach is designated to leverage the Group's regional familiarity allowing its procurement and trading business to tap into emerging consumer markets and reach a broader and varied customer base. As part of this initiative, the Group also plans to diversify and expand its product portfolio by including a wider range of brands and product categories, including but not limited to, aroma diffuser and electronic fans, for customers from different markets and demands. To facilitate this, the Group anticipates to expand the current team, which comprised five members as at the Latest Practicable Date and recruit additional personnel to driving the development of this segment in the forthcoming 12 months period, subject to the availability of the appropriately skilled and experience personnel, such includes engagement with external contacts and participation in trade events. The aforesaid expansion plan involves a wide range of aspects, including, among others, (i) geographical expansion to various regions; (ii) broadening sales and marketing channels to extend the Group's reach to a wider customer base; (iii) diversification of products portfolio to accommodate the market demands at the material time; and (iv) augmentation of team members to support entry into additional regions or markets accessed by the Company.

Considering the above plan and the expected growth in domestic consumers market as outlined in our analysis under the section headed "5.1 Overview of the PRC economy and consumer goods industry", further supported by the achieved GDP growth driven by PRC government policies, we are of the view that the prospects of the consumers market remains broadly positive in the near future, which shall in turn support the Group's expansion initiatives to reach a wider distribution network. In view of the foregoing, we are of the view that the anticipated expansion of between 10% and 15% is justifiable.

It is further noted that, the Company needs to incorporate sufficient flexibility to accommodate potential deviation between the actual timing of order placements by the customers and the projected schedules, which may cause the actual transaction(s) being recognised in the subsequent financial year and, thereby utilising the annual cap for the subsequent year instead. In addition, the Proposed Caps shall facilitate the efficient execution of the continuing connected transactions under the New Products Sale and Purchase Framework Agreement during the relevant term rather than having to obtain approval on a transaction-by-transaction basis. Should the Proposed Caps become insufficient, the Management will have to carry out all necessary internal approval procedures to revise the subject annual cap, which would be time consuming and unduly burdensome. Furthermore, the continuing connected transactions shall be conducted in accordance with the internal control measures adopted by the Group, and on terms that are fair and reasonable.

Based on our work performed and factors considered above, we are of the view that the basis of the Proposed Caps is fair and reasonable.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the New Products Sale and Purchase Framework Agreement, including the Proposed Caps and the transactions contemplated thereunder are conducted in the ordinary and usual course of the business of the Group, the terms of the New Products Sale and Purchase Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and the transactions contemplated under the New Products Sale and Purchase Framework Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolution to approve the New Products Sale and Purchase Framework Agreement, including the Proposed Caps and the transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
Red Sun Capital Limited



Lewis Lai
Managing Director

Mr. Lewis Lai is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 18 years of experience in the corporate finance industry.

* *for identification purposes only*