红日资本有限公司
RED SUN CAPITAL LIMITED

To: The Independent Board Committee and the Independent Shareholders of Universal Technologies Holdings Limited

Dear Sir/Madam,

MAJOR DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 49% OF THE EQUITY INTEREST IN QINGHUI PROPERTIES LIMITED

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 25 August 2026 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 5 June 2026 (after trading hours of the Stock Exchange), the Company, the Vendor (an indirect wholly owned subsidiary of the Company), the Purchaser and the Target Company entered into the Sale and Purchase Agreement, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, the Sale Shares for the Consideration of RMB8.5 million (equivalent to approximately HK$9.8 million). On 4 August 2026, the Company, the Vendor, the Purchaser and the Target Company entered into the Supplemental Agreement to extend the Long Stop Date from 31 August 2026 to 30 September 2026 (or such later date as the parties may agree in writing).

As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of the Disposal exceeds 25% but is less than 75%, the Disposal constitutes a major disposal for the Company and is subject to reporting, announcement, circular, and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, (a) the Target Company is owned as to 49% by the Vendor and as to 51% by the Purchaser; (b) the Purchaser is wholly, ultimately and beneficially owned by Ms. Zhu and her spouse; and (c) Ms. Zhu is an executive Director and a substantial Shareholder deemed to be interested in 1,561,140,000 Shares (representing approximately 28.32% of the issued share capital of the Company), which comprise (a) 961,140,000 Shares directly held by Ever City (wholly-owned by Affluent Vast, which is in

香港中环德辅道中141号中保集团大厦27楼2703室
Room 2703, 27/F., China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong
Tel电话 : (852) 2857 9208 Fax传真 : (852) 2857 9100
E-mail电邮 : info@redsunhk.com

turn wholly-owned by Ms. Zhu); and (b) 600,000,000 Shares held by Eastcorp (wholly-owned by Ever City). The Purchaser is therefore considered as a connected person of the Company. The Disposal constitutes a connected transaction for the Company and is subject to reporting, announcement, circular, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Yeung Kin Chung Clifton, M.H., Mr. Chao Pao Shu George and Mr. Chai Chung Wai, has been established to advise the Independent Shareholders regarding the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder.

We have been approved by the Independent Board Committee and appointed by the Company to advise the Independent Board Committee and Independent Shareholders in this regard on (i) whether the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Disposal is conducted in the ordinary and usual course of business of the Group; (iii) whether the Disposal is in the interests of the Company and the Shareholders as a whole; and (iv) how the Independent Shareholders should vote in respect of the relevant resolution to approve the Disposal at the EGM.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company, the Vendor, the Purchaser and the Target Company and their respective shareholders, directors or chief executives, or any of their respective associates. Accordingly, we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the transactions contemplated under the Sale and Purchase Agreement.

Save for this appointment as the independent financial adviser, Red Sun Capital has not acted as an independent financial adviser to the Company under the Listing Rules in the past two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser and the engagement as stated above as the independent financial adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Group or any other parties 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 OF OUR ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions, beliefs and representations for matters relating to the Company, the Vendor, the Purchaser, the Target Company and their respective shareholders and management contained in the Circular and the information and representations provided to us by the Group, its senior management (the "**Management**") and the Directors. We have also reviewed, among other things, the Sale and Purchase Agreement, the Supplemental Agreement, the Valuation

Report, the financial information of the Group and the Target Group disclosed in the Circular, the Management projections adopted in the Valuation, the reports from McMillan Woods and Astrum Capital in relation to the profit forecast underlying the Valuation, and other information contained in the Circular which we considered relevant to our assessment.

We have assumed that all such information, opinions, facts and representations provided to us by the Directors and the Management, for which they are fully responsible, are true, accurate and complete in all respects. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the Management, the Independent Valuer and other advisers of the Company. The Company has also confirmed to us that no material facts have been omitted from the information supplied and we have no reason to suspect that any material information has been withheld or is misleading.

We consider that we have been provided sufficient information currently available to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided by the Directors and the Management, nor have we conducted any independent investigation into the business, affairs, operations, financial position or future prospects of each of the Group, the Vendor, the Purchaser, the Target Company and any of their respective subsidiaries and associates. Nevertheless, we have taken reasonable steps, including discussions with the Management and the Independent Valuer, review of the relevant transaction documents and review of the valuation methodology, key assumptions and quantitative inputs adopted in the Valuation, to satisfy ourselves that we have a reasonable basis for our opinion. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Sale and Purchase Agreement and the transactions contemplated thereunder, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent. In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Disposal, we have considered the following principal factors and reasons.

A. Information of the Group

As set out in the Letter from the Board, The Group is principally engaged in (i) the supply of pipelined water, together with related customer services such as water quality inspection, water pipe repairs and maintenance, and water meter maintenance and replacement (i.e., the Water Supply Business); (ii) property investment and development in the PRC and overseas (i.e., the Property Business); and (iii) the provision of financial services (i.e., the Financial Business).

Set out below is a summary of the Group's financial information for the year ended 31 December 2023, the eighteen months ended 30 June 2025 as extracted from the annual report of the Company for the eighteen months ended 30 June 2025 (the "**Annual Report**"), and for the six months ended 31 December 2024 and 2025, as extracted from the interim report of the Company for the six months ended 31 December 2025 (the "**Interim Report**").

Extraction of the consolidated statements of profit or loss of the Group

	For the six months ended 31 December		**For the eighteen months ended 30 June**	**For the year ended 31 December**
	2025	**2024**	**2025**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	*(unaudited)*	*(audited)*	*(audited)*
Revenue				
Water supply and related services	157,133	173,408	415,699	298,079
Properties investment and development	15,628	10,526	35,295	20,809
Financial services	163	66	307	259
	172,924	**184,000**	**451,301**	**319,147**
Gross profit/(loss)	**5,869**	**15,181**	**(26,763)**	**17,771**
Loss for the period/ year attributable to Shareholders of the Company	**(49,311)**	**(28,532)**	**(161,360)**	**(137,336)**

For the six months ended 31 December 2024 and 2025

As set out in the Annual Report, the total revenue of the Group for the six months ended 31 December 2025 was approximately HK$172.9 million, representing a decrease of 6.0% or approximately HK$11.1 million as compared to approximately HK$184.0 million for six months ended 31 December 2024. The decrease in revenue was mainly due to decline in revenue from the water supply and related business of approximately HK$16.3 million, partly offset by the increase in revenue from properties investment and development of approximately HK$5.1 million.

The revenue from water supply and related services, comprised of water quality inspection, water pipe repairs and maintenance, water meter maintenance and replacement and other related services, recorded revenue of approximately HK$157.1 million for six months ended 31 December 2025, representing a decrease of approximately 9.4% or HK$16.3 million as compared with the revenue of approximately HK$173.4 million for the six months ended 31 December 2024, which was mainly due to the decrease revenue from water supply related installation, construction and maintenance.

The revenue from properties investment and development business of the Group, comprised of the rental operation of the Group's commercial properties in Guangzhou, recorded revenue of approximately HK$15.6 million for the six months ended 31 December 2025, representing an increase of approximately 48.5% or HK$5.1 million as compared with the revenue of approximately HK$10.5 million for the six months ended 31 December 2024, which was driven by a resurgence in market recovery and improved consumer sentiment, leading to heightened foot traffic and a lower vacancy rate in shopping malls.

The gross profit of the Group decreased from approximately HK$15.2 million for the six months ended 31 December 2024 to approximately HK$5.9 million for the six months ended 31 December 2025, representing a decrease of approximately HK$9.3 million or 61.3%. Such decrease was mainly due to the decrease in revenue from water supply and related services as mentioned above, and partly offset by the decrease in cost of revenue of approximately HK$1.8 million for the six months ended 31 December 2025.

The loss of the Group attributable to shareholders of the Company increased from approximately HK$28.5 million for the six months ended 31 December 2024 to approximately HK$49.3 million for the six months ended 31 December 2025, representing an increase of approximately HK$20.8 million or 72.8%. Such increase was mainly due to (i) decrease in gross profit as mentioned above; (ii) the Group recorded net other losses of approximately HK$27.5 million as compared to net other gain of HK$8.4 million mainly the result of an increase in compensation loss and other charges and net exchange losses; and (iii) increase in income tax expenses of approximately HK$18.1 million.

For the year ended 31 December 2023 and the eighteen months ended 30 June 2025

As set out in the Annual Report, for the eighteen months ended 30 June 2025, the Group recorded revenue of approximately HK$451.3 million, representing an increase of approximately 41.4% or HK$132.2 million as compared to revenue of approximately HK$319.1 million for the year ended 31 December 2023. Such increase was mainly due to the increase in revenue from the Group's water supply business and rental income from commercial properties in Guangzhou.

The revenue from water supply and related services amounted to approximately HK$415.7 million for the eighteen months ended 30 June 2025, representing an increase of approximately 39.5% or HK$117.6 million as compared with the revenue of approximately HK$298.1 for the year ended 31 December 2023.

The revenue from properties investment and development business of the Group amounted to approximately HK$35.3 million for the eighteen months ended 30 June 2025, representing an increase of approximately 69.6% or HK$14.5 million as compared with the revenue of approximately HK$20.8 million for the year ended 31 December 2023.

The gross loss of the Group amounted to approximately HK$26.8 million for the eighteen months ended 30 June 2025, as compared to gross profit of approximately HK$17.8 million for the year ended 31 December 2023, representing a decrease of gross profit of approximately HK$44.5 million. The gross loss of the Group was mainly driven by the increase in cost of revenue.

Net loss attributable to shareholders of the Company increased from approximately HK$137.3 million for the year ended 31 December 2023 to approximately HK$161.4 million for the eighteen months ended 30 June 2025, representing an increase of HK$24.0 million. The increase in net loss attributable to Shareholders of the Company was mainly due to (i) the Group recorded gross loss for the eighteen months ended 30 June 2025 as compared to the gross profit for the year ended 31 December 2023; (ii) the increase in general and administrative expenses of approximately HK$45.0 million; (iii) the increase in impairment loss on amount due from a joint venture of approximately HK$13.9 million; and (iv) the increase in finance cost of approximately HK$10.5 million, and partly offset by the decreases in impairment loss on goodwill of approximately HK$11.3 million and impairment loss on non-current assets of approximately HK$52.0 million.

Extraction of consolidated statements of financial position of the Group

	As at 31 December 2025 *HK$'000* *(unaudited)*	**As at 30 June 2025** *HK$'000* *(audited)*	**As at 31 December 2023** *HK$'000* *(audited)*
Non-current assets	1,455,010	1,393,903	1,517,086
Current assets	410,625	509,235	525,296
Total assets	**1,865,635**	**1,903,138**	**2,042,382**
Non-current liabilities	678,401	701,343	643,772
Current liabilities	949,590	872,004	785,097
Total liabilities	**1,627,991**	**1,573,347**	**1,428,869**
Total equity attributable to equity Shareholders of the Company	**572,555**	**615,479**	**799,224**

Financial position of the group as at 31 December 2025 and 30 June 2025

The total assets of the Group amounted to approximately HK$1,865.6 million as at 31 December 2025, representing a decrease of approximately HK$37.5 million or 2.0% as compared to approximately HK$1,903.1 million as at 30 June 2025. As at 31 December 2025, total assets of the Group mainly comprised of (i) investment properties of approximately HK$544.0 million; (ii) property, plant and equipment of HK$301.7 million; (iii) deposits paid for acquisition of investment properties of approximately HK$251.9 million; (iv) interest in a joint venture of approximately HK$213.6 million; (v) restricted bank deposits of HK$134.4 million; and (vi) cash and bank balances of approximately HK$89.1 million.

The total liabilities of the Group amounted to approximately HK$1,628.0 million as at 31 December 2025, representing an increase of approximately HK$54.6 million or 3.5% as compared to approximately HK$1,573.3 million as at 30 June 2025. As at 31 December 2025, total liabilities of the Group mainly comprised of (i) bank borrowings of approximately HK$ 664.4 million; (ii) trade payables of HK$529.6 million; (iii) deposits received, other payables and accruals of approximately HK$315.2 million.

The total equity attributable to Shareholders of the Company decreased from approximately HK$615.5 million as at 30 June 2025 to approximately HK$572.6 million as at 31 December 2025, representing a decrease of approximately HK$42.9 million or 7.0%. Such decrease was mainly attributable to the loss attributable to shareholders of the Company of approximately HK$49.3 million for the six months ended 31 December 2025.

Financial position of the group as at 30 June 2025 and 31 December 2023

The total assets of the Group decreased from approximately HK$2,042.4 million as at 31 December 2023 to approximately HK$1,903.1 million as at 30 June 2025, representing a decrease of approximately HK$139.2 million or 6.8%. As at 30 June 2025, total assets of the Group mainly comprised of (i) investment properties of approximately HK$562.4 million; (ii) property, plant and equipment of HK$292.3 million; (iii) interest in a joint venture of approximately HK$210.7 million; (iv) cash and bank balances of HK$172.6 million; (v) deposits paid for acquisition of investment properties of approximately HK$154.6 million; and (vi) deposits, prepayments and other receivables of approximately HK$128.9 million.

The total liabilities of the Group increased from approximately HK$1,428.9 million as at 31 December 2023 to approximately HK$1,573.3 million as at 30 June 2025, representing an increase of approximately HK$144.5 million or 10.1%. As at 30 June 2025, total liabilities of the Group mainly comprised of (i) bank borrowings of approximately HK$742.4 million; (ii) trade payables of HK$500.2 million; (iii) deposits received, other payables and accruals of approximately HK$235.9 million.

The total equity attributable to shareholders of the Company decreased from approximately HK$799.2 million as at 31 December 2023 to approximately HK$615.5 million as at 30 June 2025, representing a decrease of approximately HK$183.7 million or 23.0%. Such decrease was mainly attributable to the loss attributable to shareholders of the Company of approximately HK$161.4 million for the eighteen months ended 30 June 2025.

B. Information of the Vendor

The Vendor is a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company acting as the holding company of various PRC entities of the Group. The principal business activity of the Vendor is provision of consultancy services. As at the Latest Practicable Date, the Vendor directly held 49% of the equity interest of the Target Company.

C. Information of the Purchaser

Based on the information provided by the Purchaser, (i) the Purchaser is a joint stock limited company incorporated in PRC; (ii) the principal business activities the Purchaser are investment and provision of consultancy services; (iii) the Purchaser is wholly, ultimately and beneficially owned by Ms. Zhu and her spouse Mr. Yang; and (iv) the Purchaser directly held 51% of the equity interest of the Target Company as at the Latest Practicable Date.

D. Information of the Target Group

The Target Company is a company incorporated in the PRC with limited liability, which is directly owned as to 49% by the Vendor and as to 51% by the Purchaser as at the Latest Practicable Date. The principal business activity of the Target Company is the holding of the entire equity interest in WSD Company.

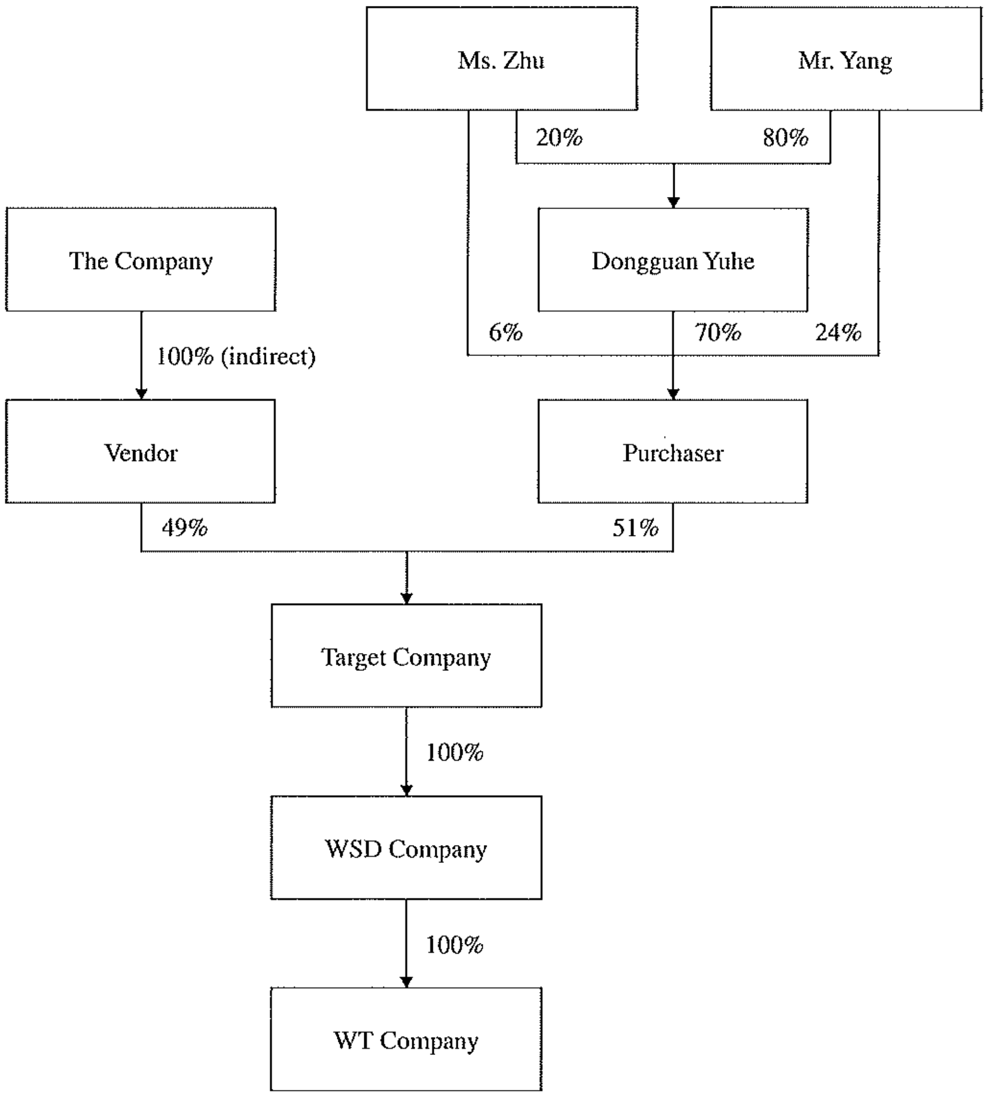
WSD Company is a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Target Company. WSD Company is principally engaged in the supply of pipelined water in Qingcheng District of Qingyuan City, Guangdong Province, the PRC.

WT Company is a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of WSD Company. WT Company is principally engaged in the provision of water quality testing services.

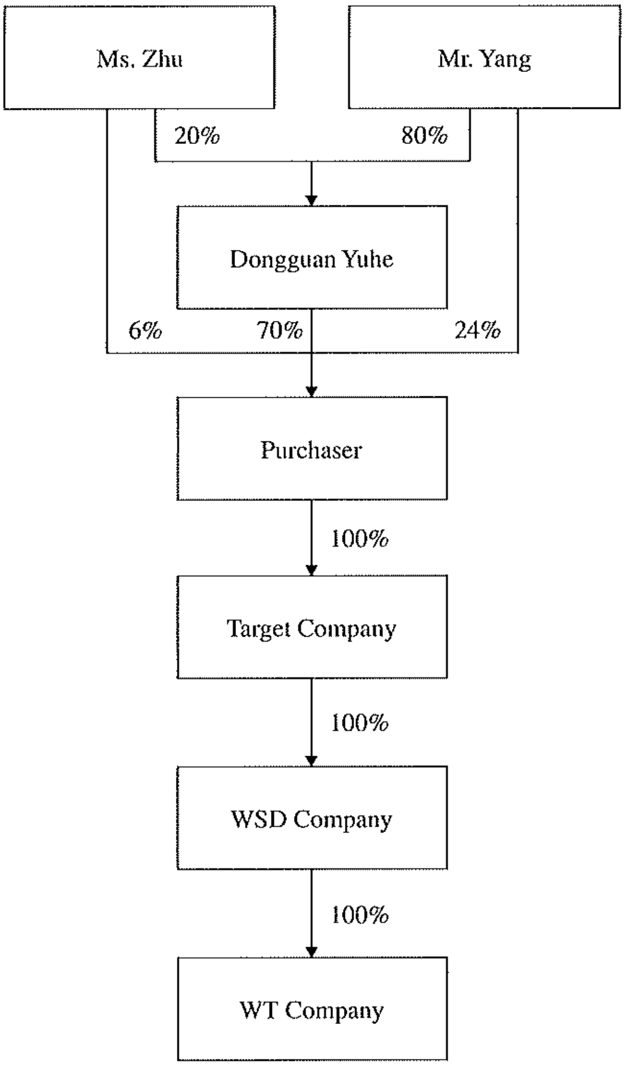
The constitution of the Target Company presently provide that: (i) no resolutions relating to amending the articles of association; increase or decrease of the registered capital; merger, dissolution, winding-up or changing the company form of the Target Company shall be passed unless consents from the shareholders representing two thirds or more of the voting rights have been obtained; (ii) save for the aforesaid, the board of directors of the Target Company shall be delegated with the authority to deal with all other matters in relation to the Target Company and such delegation shall not be revoked unless the shareholders of the Target Company representing two thirds or more of the voting rights agree; (iii) the Purchaser has right to appoint one director to the board of directors of the Target Company and the Vendor has right to appoint two directors to the board of directors of the Target Company; (iv) no resolutions relating to management, operational activities, profit distribution or return on investment of the Target Company shall be passed unless agreed by more than 50% of the directors of the Target Company; and (v) any amendments to the articles of the association of the Target Company will require the approval from the shareholders of the Target Company representing two thirds or more of the voting right. In light of the above provisions, the Group has control of the Target Company and accordingly, each member of the Target Group is presently treated as a subsidiary of the Group. If the Disposal proceeds to Completion, it is expected that the constitution of the Target Company will be amended such that the Group no longer retain control of the members of the Target Group after Completion.

Group structure of the Target Group

(i) The shareholding structure of the Target Group immediately prior to Completion and as at the Latest Practicable Date is as follows:



(ii) The shareholding structure of the Target Company immediately after Completion is as follows:



Financial information of the Target Group

The unaudited financial information of the Target Group for the year ended 31 December 2023, the eighteen months ended 30 June 2025 and the six months ended 31 December 2025 is set out as below:

	For the year ended 31 December 2023 *(HK$'000)* *(unaudited)*	For the eighteen months ended 30 June 2025 *(HK$'000)* *(unaudited)*	For the six months ended 31 December 2025 *(HK$'000)* *(unaudited)*
Turnover	241,800	333,668	113,610
Loss before taxation	(61,745)	(134,737)	(25,629)
Loss for the year/period	(64,662)	(132,963)	(42,520)

As at 31 December 2025, the unaudited total assets and net liabilities of the Target Group were approximately HK$589.68 million and approximately HK$626.86 million, respectively.

As at 31 December 2025, the inter-company balances between the Target Group and the Remaining Group comprise: (i) an amount owing by the Target Group to the Remaining Group in the amount of approximately RMB58.77 million (equivalent to approximately HK$65.31 million); and (ii) an amount owing by the Remaining Group to the Target Group in the amount of approximately RMB49.42 million (equivalent to approximately HK$54.91 million). The Company intends to offset the amounts stated above to the extent possible, and have the debtor settling the net balance (after offsetting) on or before Completion.

E. Reasons for and benefits of the Disposal

As set out in the Letter from the Board, the Group is principally engaged in (i) the supply of pipelined water, together with related customer services such as water quality inspection, water pipe repairs and maintenance, and water meter maintenance and replacement (i.e. the Water Supply Business); (ii) property investment and development in the PRC and overseas (i.e. the Property Business); and (iii) the provision of financial services (i.e. the Financial Business). So far as the Water Supply Business is concerned, the Target Group and the Remaining Group own and operate water pipeline networks connecting and providing services in Qingcheng District and Qingxin District of Guangdong Province, the PRC, respectively.

As disclosed in the Cessation Notice Announcement published by the Company dated 3 March 2020, WSD Company received the Cessation Notice issued by the Water Bureau on 3 March 2020, pursuant to which the Water Bureau notified WSD Company of the decision of the Qingyuan Government to stop the water intake of Qixinggang Water Plant operated by WSD Company with effect from 4 March 2020 and to commence full water intake of the Government-designated Water Plant. Due to the much higher water costs imposed by the Government-designated Water Plant as compared to the Group's own production costs before the Cessation Notice, the Group's Water Supply Business has suffered from severe loss-making, accumulating an aggregate loss of approximately HK$432.15 million between 1 January 2020 and 31 May 2026.

As disclosed in the Cessation Notice Announcement and the previous results announcements and financial reports of the Company, since October 2020, WSD Company received various writs of civil claim from the Government-designated Water Plant alleging to claim against WSD Company the "cost of water supply" for various time periods. WSD Company has now received civil judgments from the Qingyuan Court, ordering WSD Company to pay water charges, plus overdue interest calculated at the rate of 1-year term loan market quoted interest rate, litigation and related charges (collectively, the Ancillary Charges), to the Government-designated Water Plant. Up to the Latest Practicable Date, WSD Company received six writs of civil claims from the Government-designated Water Plant for total alleged water costs of approximately RMB630.9 million, plus total alleged Ancillary Charges of approximately RMB39.5 million, of which approximately RMB261.7 million was already settled. For the sake of prudence, the Group had already made provisions, principally reflected in its trade payables (as regards the alleged water costs) and other payable (as regards the Ancillary Costs) since the issue of the Cessation Notice, on the basis of its own estimation of the costs of water supply, pending the resolution of the Disputes and Litigations with, inter alia, the Government-designated Water Plant. Such estimations are adjusted from time to time in accordance with the water quantity and judgments rendered by the Qingyuan Court. As at 31 May 2026, (i) the Group's Trade Payables arising from Water Business operated by the Target Group amounted to approximately HK$507.3 million, of which approximately HK$492.6 million represented water costs (and provisions made therefor) which are still subject to the Disputes and Litigations; and (ii) included in deposits received, other payable and accruals was compensation of approximately HK$13.5 million payable as a result of civil judgments rendered by the Qingyuan Court in litigation with the same supplier/plaintiff, being the Other Payable arising from Ancillary Charges. Certain bank accounts of WSD Company were frozen as a result of the Disputes and Litigations with Government-designated Water Plant. As at 31 July 2026, the Group had restricted bank deposits of approximately HK$165.3 million, all of which were attributable to the Target Group.

Apart from seeking legal advice to uphold its position in the Disputes and Litigations, the Group was also in negotiation with the Government-designated Water Plant with the view to exploring the possibility of reaching an amicable resolution of the Disputes and Litigations. However, as disclosed in the Company's announcement dated 30 June 2026, such negotiation was still ongoing and no binding agreement has been concluded or reached with the counterparty at this stage.

The Disputes and Litigations are solely related to WSD Company, and the Remaining Group has not provided any guarantee to the Target Group. As no member of the Remaining Group is a party to the Disputes and Litigations, it is the Directors' view that the Remaining Group will be released from further litigation risks with the Government-designated Water Plant upon Completion of the Disposal.

The Directors consider that the Disposal represents a good opportunity for the Group to (i) reduce the Group's risks exposures arising from the Disputes and Litigations; (ii) cease the adverse impact of high water costs sought to be charged by the Government-designated Water Plant on the Group's profitability; and (iii) deconsolidate the Trade Payables arising from Water Business operated by the Target Group and Other Payable arising from Ancillary Charges, both presently classified as current liabilities, from the Group's consolidated financial statements, thereby substantially improving the Group's net assets and net current assets/(liabilities) positions. The Directors further note that (i) the Disposal only involves the disposal of part, but not all, of the Group's Water Supply Business; and (ii) the Company has no plan to dispose of, in the next twelve months, its remaining business of water supply in Qingxin District carried out by the Remaining Water Group which, together with the Property Business and the Finance Business, are viable, sustainable and of substantial level of operations and asset value.

As at the Latest Practicable Date, the Target Group's only cash-generating assets comprise the water business and related assets (including the closed water plant and the water pipeline network). The Target Group does not own or control any other tangible or intangible asset, patent, technology, development right, concession or any other special right which is not already reflected in its accounts but may create potential upside to the Target Group.

We have considered whether the Disposal effectively transfers the economic burden of the Disputes and Litigations to the Purchaser. Based on our review of the Sale and Purchase Agreement, upon Completion, the Target Group will cease to be subsidiaries of the Company and their assets and liabilities (including the Trade Payables arising from Water Business and Other Payable arising from Ancillary Charges) will no longer be consolidated into the Group's financial statements.

We further understand from the Management that, save for any obligations existing prior to Completion at the Company level (if any), the liabilities relating to the Target Group will remain with the Target Group after Completion. Accordingly, the Disposal substantially reduces the Group's exposure to future adverse financial impact arising from the Disputes and Litigations.

Having considered the factors above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable, and that the entering into of the Sale and Purchase Agreement is in the interests of the Company and Shareholders as a whole. Due to the shareholding of Ms. Zhu and her spouse in the Purchaser, she was considered to have a material interest in the Disposal and has abstained from voting on the Board resolution(s) approving the Disposal. The Board intends to apply the Consideration (after deducting costs related to the transaction) for the Group's general working capital, including the payment of office overheads, rental and staff expenses, and professional fees in the next twelve months.

F. Principal terms of the Sale and Purchase Agreement

The principal terms of the Sale and Purchase Agreement are summarized as below:

Date: 5 June 2026 (after trading hours of the Stock Exchange) (as supplemented by the Supplemental Agreement dated 4 August 2026)

Parties: (1) the Company;

(2) the Vendor;

(3) the Purchaser; and

(4) the Target Company.

As at the Latest Practicable Date, (i) the Target Company is owned as to 49% by the Vendor and as to 51% by the Purchaser; (ii) the Vendor is a company incorporated in the PRC with limited liability whose scope of business includes the provision of consultancy services, and an indirect wholly-owned subsidiary of the Company acting as the holding company of various PRC entities of the Group; (iii) the Purchaser is a joint stock limited company incorporated in the PRC whose scope of business includes investment and the provision of consultancy services, and is wholly, ultimately and beneficially owned by Ms. Zhu and her spouse Mr. Yang; and (iv) Ms. Zhu is an executive Director and, through her controlled corporations Affluent Vast, Ever City and Eastcorp, is a substantial Shareholder deemed to be interested in 1,561,140,000 Shares, representing approximately 28.32% of the issued share capital of the Company.

Subject Matter

Pursuant to the Sale and Purchase Agreement, the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, the Sale Shares for the Consideration of RMB8.5 million (equivalent to approximately HK$9.8 million).

As at the Latest Practicable Date, the Target Group is principally engaged in the supply of pipelined water in Qingcheng District of Qingyuan City, Guangdong Province, the PRC, together with related customer services such as water quality inspection, water pipe repairs and maintenance, and water meter maintenance and replacement.

Consideration

The Consideration for the Disposal is RMB8.5 million (equivalent to approximately HK$9.8 million), which shall be paid by the Purchaser to the Vendor (or its designated nominees as it may direct) in cash upon the Completion.

The Consideration was determined after arm's length negotiations between the Vendor and the Purchaser with reference to, among other things, (i) the business nature and prospects of the Target Group as set out in the section headed "REASONS FOR AND BENEFITS OF THE DISPOSAL" below; and (ii) the financial position of the Target Group as at 31 December 2025. As mentioned in the section headed "REASONS FOR AND BENEFITS OF THE DISPOSAL" below, the Target Group has faced significant uncertainty since March 2020 when the Water Bureau of Qingyuan Government issued the Cessation Notice (as defined below) to order WSD Company to close down its water plant, and to take water from the Government-designated Water Plant (as defined below). Since then, the financial performance and position of the Target Group has worsened due to the Disputes and Litigations. The Consideration of RMB8.5 million was negotiated by the parties by reference to the Target Company's free cash on book of approximately RMB8.5 million (after taking into account the non-restricted cash balance of the Target Group of approximately RMB12.9 million and the planned budget for legal costs and other charges and expenditure necessitated by the Disputes and Litigations in the amount of approximately RMB4.4 million) as at 31 December 2025.

The Directors (including the independent non-executive Directors) consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions Precedent

Completion is conditional upon the fulfillment or waiver (as the case may be) of the Conditions as set forth below:

(a) the Purchaser having completed the due diligence over the Target Group and being satisfied with its results in its absolute discretion;

(b) all warranties given by the Vendor and the Purchaser being true, accurate and not misleading at all times between the date of the Sale and Purchase Agreement and the Completion Date;

(c) the Vendor having obtained all necessary or appropriate internal and third-party(ies) consents, confirmations, waivers or approvals (if any) (other than those set out in paragraph (d) below), all waiting periods under any laws of the relevant jurisdictions having expired or terminated and all applicable statutory and legal obligations having been complied with the entering into and the implementation of the Sale and Purchase Agreement and the transactions contemplated thereunder; and

(d) the Company having obtained the Independent Shareholders' approval at the EGM for the Sale and Purchase Agreement and the transactions contemplated in accordance with the Listing Rules.

Save for the condition (d) above which cannot be waived by any party in any event, all other conditions precedent could be waived at the absolute discretion of the Purchaser.

As at the Latest Practicable Date, none of the Conditions has been fulfilled.

The Long Stop Date for the fulfillment or waiver of the Conditions was originally fixed for 31 August 2026, but was subsequently extended to 30 September 2026 (or such later date as the parties may agree in writing) pursuant to the Supplemental Agreement. If any of the Conditions are not fulfilled or waived on or before the Long Stop Date, the Sale and Purchase Agreement shall terminate, and no party shall have any claim in relation to the Sale and Purchase Agreement (without prejudice to the rights of any party in respect of antecedent breaches).

Completion

Subject to fulfillment or waiver (as the case may be) of all the Conditions, Completion shall take place on the Completion Date, i.e. within six weeks after the satisfaction of the Conditions, or such later date as may be agreed by the parties in writing prior to Completion. At Completion, upon the receipt of the Consideration by the Vendor in full, the Vendor shall transfer the Sale Shares to the Purchaser (or any nominees as the Purchaser may in its absolute discretion direct).

Our assessment of the Consideration

In assessing the fairness and reasonableness of the Consideration, we have reviewed the basis of determining the Consideration and discussed with the Management the rationale for referencing the free cash on book of the Target Group. We understand from the Management that, having regard to the Target Group's net liabilities position, loss-making track record and litigation-related exposures, the parties considered it commercially more relevant to negotiate the Consideration by reference to the Target Group's available non-restricted cash after reserving necessary funding for legal costs and other expenses relating to the Disputes and Litigations.

As set out in the Letter from the Board, the Target Group had non-restricted cash balance of approximately RMB12.9 million as at 31 December 2025. After deducting the planned budget for legal costs and other charges and expenditure necessitated by the Disputes and Litigations of approximately RMB4.4 million, the free cash on book of the Target Group amounted to approximately RMB8.5 million.

We have also compared the Consideration with the fair value of 49% equity interest in the Target Company as appraised by the Independent Valuer, which was nil as at 31 December 2025. In addition, we have considered that the Target Group recorded losses for each of the year ended 31 December 2023, the eighteen months ended 30 June 2025 and the six months ended 31 December 2025, and had unaudited net liabilities of approximately HK$626.86 million as at 31 December 2025.

It is a common market practice for a listed company to dispose a subsidiary or business unit at a consideration of not less than the valuation of the subject subsidiary or business unit. In this case, the Target Group was loss-making, had net liabilities, litigation exposure and a nil Valuation. As the Valuation of the Target Group was nil and the Consideration exceeded the Valuation, we are of the view that the basis of Consideration aligns the market practice to dispose business unit at least at its valuation.

Having considered that (i) the Consideration of RMB8.5 million is higher than the assessed fair value of the Sale Shares of nil; (ii) the basis of Consideration aligns the market practice to dispose business unit at least at its valuation; (iii) the Consideration was negotiated with reference to the Target Group's available free cash after taking into account expected litigation-related costs; (iv) the Target Group was in a net liabilities position and had a loss-making track record; and (v) the Disposal would enable the Group to deconsolidate the assets and liabilities of the Target Group upon Completion, we concur with the view of the Directors that the basis of determining the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

G. Evaluation on Valuation prepared by Independent Valuer

Valuation Report

By adopting the income approach method, the fair value of 49% of the equity interest of the Target Company as at 31 December 2025 was assessed at RMB0, primarily due to (i) the Target Group's sustained operating losses, (ii) its net liabilities position, and (iii) the significant surplus debt and non-operating liabilities which exceeded the assessed enterprise value.

The Directors have (i) reviewed and discussed with the Independent Valuer the methodology of, and the bases and assumptions adopted for, the Valuation, which are summarised in the Valuation Report on the Target Group as set out in Appendix II to this circular; (ii) reviewed the projections and assumptions adopted by the Independent Valuer; and (iii) assessed the experience and expertise of the Independent Valuer.

a. The competence and scope of work of the Independent Valuer

For due diligence purpose, we have obtained and reviewed the supporting documents on the qualifications, experience and expertise of the Independent Valuer and discussed the same with the Independent Valuer. We noted that Mr. Damon S.T. Wan ("**Mr. Wan**") and Ms. Stella S.Y. Lam ("**Ms. Lam**") are the core team members of the Independent Valuer preparing the Valuation Report, and that (i) Mr. Wan is a CFA Charterholder, a Certified FRM and a member of Royal Institution of Chartered Surveyors, who has been working in the professional valuation field since 2008 and is experienced and specialised in performing properties, financial instruments, intangible assets and business valuations for the purposes of corporate advisory, merger & acquisition and public listing; and (ii) Ms. Lam is a CFA Charterholder and has been working in the valuation industry since 2016, who is experienced in intangible assets, financial instruments and business valuation. We also noted from the credentials provided by the Independent Valuer that it has extensive experience in the provision of independent valuation services to various listed companies in Hong Kong. Based on the above, we are satisfied with the competence of the Independent Valuer in respect of the preparation of the Valuation Report.

We have reviewed the scope of work of the engagement of the Independent Valuer for the Valuation Report. We are of the view that the scope of work is appropriate to the opinion required to be given by the Independent Valuer and we are not aware of any limitation on the scope of work which might adversely impact on the assurance level as set out in the Valuation Report. We have enquired the Independent Valuer and they confirmed that they are independent from the Company, the Vendor, the Purchaser and the Target Company, and their respective core connected persons and associates.

The Independent Valuer also advised that they had discussion with the Management on the industry and the development of Target Group and they considered that they have obtained adequate information from the sources described in the Valuation Report to provide a reliable opinion on appraised value of the Target Group. The Independent Valuer also advised that they have no reason to believe that any material facts have been withheld from them.

b. Valuation methodology

As advised by the Independent Valuer, in the process of valuing a business subject, they have taken into consideration of business nature, assets type, specialty of its operations, assets owned, and liabilities assumed and industry it is participating.

We note that the Independent Valuer considered the three generally accepted valuation approaches, namely market approach, asset approach and income approach. We have discussed with the Independent Valuer the reasons for selecting the income approach and the reasons for not adopting the market approach or asset approach as the primary valuation methodology. Our assessment is set out below.

Market approach

As advised by the Independent Valuer, under the market approach, the Independent Valuer has considered two commonly used methods of valuation, namely the comparable transaction method and the guideline public company method.

We understand from the Independent Valuer that the comparable transaction method was not adopted as there were insufficient recent and directly comparable transactions involving PRC water supply businesses with similar loss-making profile, net liabilities position, regulatory background and litigation-related exposure. We consider such view reasonable because the Target Group is subject to specific circumstances arising from the Cessation Notice and the Disputes and Litigations, and a transaction multiple derived from companies or assets without similar litigation burden and cost structure may not provide a meaningful benchmark.

We also understand from the Independent Valuer that the guideline public company method was not adopted as a primary valuation method. Although the Independent Valuer identified certain listed companies engaged in water supply and related services for the purpose of deriving the weighted average cost of capital ("**WACC**") inputs, these companies were not used for valuation multiple analysis. We have discussed this with the Independent Valuer and note that:

(i) sales-based multiples such as price-to-sales or enterprise value-to-sales would not reflect the Target Group's high water purchase cost and compressed profit margin caused by the mandatory purchase of water from the Government-designated Water Plant;

(ii) earnings-based multiples such as price-to-earnings, enterprise value-to-EBIT and enterprise value-to-EBITDA are not meaningful given that the Target Group recorded operating losses and net losses during the track record periods; and

(iii) asset-based multiples such as price-to-book are not meaningful given that the Target Group had net liabilities of approximately HK$626.86 million as at 31 December 2025.

Having considered the above, we consider that it is reasonable not to adopt the market approach as a primary valuation method.

Asset approach

Asset approach is not appropriate as the cost of reproducing and replacing its assets ignore the future economic benefits of the business as a whole, and thus the asset approach is not a good and relevant valuation method.

We have discussed with the Independent Valuer and understand that, while the Target Group owns certain operating assets such as water pipeline, motor vehicles, plant and equipment used in its water supply and testing operations, the value of such assets should be assessed in the context of the Target Group's operating environment, including its ability to generate future cash flows, its regulated water supply business, its loss-making track record and the Disputes and Litigations. We also note that the Target Group was in a significant net liabilities position as at 31 December 2025. Accordingly, a valuation based merely on replacement cost or book value of individual assets would not appropriately capture the economic burden of the Target Group's liabilities and its ability to generate returns. We therefore consider it reasonable not to adopt the asset approach as a primary valuation method.

Income approach

The Income approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realising those benefits. Having reviewed the stable customer base and discussed with the Company, the Independent Valuer considered that projections can be estimated and made with supportable and reasonable basis by making reference to historical financial results of the Target Group, and thus the income approach is considered by the Independent Valuer to be the most appropriate method in determining the Valuation.

We have reviewed the Management projections adopted by the Independent Valuer and note that such projections cover the financial years ending 31 December 2026 to 2030. The projections were prepared by the Management with reference to the Target Group's historical financial results, expected water supply volume, expected average selling price, historical cost structure and expected operating expenses. Given that the Target Group continues to operate water supply and related services in Qingcheng District and has an existing customer base, we consider that the adoption of income approach, based on free cash flow available to the business as a whole ("**FCFF**"), is an appropriate methodology to reflect the future economic benefits of the Target Group, subject to the assumptions adopted in the projections.

Having considered the three general valuation methodologies, the Independent Valuer advised that the income approach would be appropriate and reasonable in the valuation of the Target Group and adopted FCFF for valuing the Target Group.

The Directors (including the independent non-executive Directors) consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

c. Review of projections and key quantitative inputs

In arriving at the Valuation, the Independent Valuer reviewed the projections provided and prepared by the Management for the periods from January 2026 through December 2030. The major elements of the projection included revenue, cost of sales, operating expenses and taxes.

Revenue

We have discussed with the Management and the Independent Valuer the revenue assumptions adopted in the projections. We understand that revenue mainly comprises income from sales of water to end-customers for industrial, commercial and household usage, and income from water quality testing services and other water-related services. Revenue growth from water sales is mainly driven by the expected increase in water supply volume of approximately 5.0% and the expected increase in average selling price of approximately 2.0% per annum. Revenue from water quality testing services and other water-related services is expected to grow at a gradually declining rate and approach approximately 2.0% in the long run.

In assessing the reasonableness of the revenue assumptions, we have considered that the Target Group continues to provide water supply services to Qingcheng District and had an established customer base. We have also considered the historical revenue of the Target Group of approximately HK$241.8 million for the year ended 31 December 2023, HK$333.7 million for the eighteen months ended 30 June 2025 and HK$113.6 million for the six months ended 31 December 2025. For comparison purposes, we converted the historical revenue figures from HK$ into RMB using the exchange rate of HK$100 = RMB89.9944 as at 31 December 2025. Based on this exchange rate, revenue of HK$241.8 million of the Target Group in FY2023 was equivalent to approximately RMB217.6 million, revenue of HK$333.7 million of the Target Group for the 18 months ended 30 June 2025 was equivalent to approximately RMB300.3 million, or annualised RMB200.2 million, and revenue of HK$113.6 million of the Target Group for the 6 months ended 31 December 2025 was equivalent to approximately RMB102.2 million, or annualised RMB204.5 million.

We further reviewed the detailed forecast spreadsheet, including the breakdown by water supply volume, average selling price, water testing services and other water-related services, and discussed the assumptions with Management and the Independent Valuer.

The FY2026 projected revenue of approximately RMB211.7 million was approximately 2.7% lower than FY2023 revenue, approximately 5.7% higher than the annualised revenue for the 18 months ended 30 June 2025, and approximately 3.5% higher than the annualised revenue for the 6 months ended 31 December 2025. The FY2030 projected revenue of approximately RMB274.5 million represented an implied a compound annual growth rate of approximately 6.7%.

We noted that the projected 5% annual growth in water supply volume during FY2026 to FY2030 was higher than the recent historical average, but we considered it acceptable having regard to the Target Group's operating history, Management's expectation of future water demand and the nature of water supply as an essential utility service. Furthermore, as discussed with the Independent Valuer, lowering the annual growth rate as to align the recent historical average would not have any effect on the Valuation.

We also noted that the projected 2.0% annual increase in average selling price was based on inflation expectation, which is based on the macroeconomic growth and historical inflation rate in China of approximately 2.0% throughout the projection.

Base on the above, we therefore, on a totality basis, consider the revenue assumptions adopted in the projections to be fair and reasonable.

Cost of sales

We have reviewed the cost of sales assumptions and understand that cost of sales mainly comprises water purchase cost, material cost, labour cost and other direct costs incurred in the water supply business and water-related services. The cost of sales was projected by reference to the latest financial year and historical cost-to-sales ratio. We note that the projected cost of sales represents approximately 79.2%, 79.2%, 79.3%, 79.4% and 79.7% of projected revenue for FY2026, FY2027, FY2028, FY2029 and FY2030, respectively.

Given that the Target Group's high water purchase cost from the Government-designated Water Plant has been a principal reason for its loss-making position, we consider that adopting a cost structure based on the latest financial year and historical cost-to-sales ratio is a reasonable approach.

Operating expenses

We have reviewed the operating expenses assumptions and understand that operating expenses mainly comprise management fees, depreciation, rental expenses and other general administrative costs. Such expenses were determined based on relevant tenancy agreements or projected to increase at approximately 2.0% per annum. We note that operating costs are projected to remain broadly stable, from RMB49.2 million in FY2026 to RMB46.5 million in FY2030. We consider this assumption reasonable given that a substantial portion of the Target Group's operating expenses is fixed or semi-fixed in nature.

Tax

We note that the Independent Valuer adopted the PRC corporate income tax rate of 25% throughout the projection period. We consider such tax assumption reasonable as it is consistent with the statutory enterprise income tax rate generally applicable to PRC enterprises.

Working capital and capital expenditure

We have reviewed the non-cash working capital assumptions adopted by the Independent Valuer, comprising account receivables turnover days of approximately 55.8 days, inventory turnover days of approximately 9.6 days and account payables turnover days ranging from approximately 72.6 days to 90.0 days. We understand that these assumptions were made by reference to the Target Group's historical track record and the Management's internal assessment. We consider that the use of historical working capital turnover as reference is reasonable given the continuing nature of the Target Group's water supply business.

We have also discussed with the Independent Valuer the capital expenditure assumptions and understand that maintenance capital expenditure throughout the projection period was provided by the Management based on estimated acquisition and maintenance costs, and approximates depreciation and amortisation expenses in the terminal year. As the Target Group operates a water supply business requiring ongoing maintenance of pipeline and related facilities, we consider the inclusion of maintenance capital expenditure in the FCFF calculation to be appropriate.

Discount rate

The Independent Valuer then adopted the weighted average cost of capital as the discount rate representing the total expected rate of return that an investor would demand on the purchase price of an ownership interests in an asset given the level of risk inherent in the Target Group. The analysis suggested that a discount rate of 10.6% is appropriate for valuing the Target Group at the Valuation Date.

We have discussed with the Independent Valuer the basis of each input to arrive at the WACC. We note that (i) the risk-free rate was based on the 10-year yield of China Government Bond; (ii) the equity beta and capital structure were derived by reference to comparable companies; (iii) the market risk premium was sourced from Bloomberg and Damodaran Online, a common and widely used information source of valuation, corporate finance and investment management; (iv) the size premium was based on research published by Duff & Phelps, LLC; and (v) the company specific risk premium was adopted to reflect risks specific to the Target Group, including uncertainty of profitability and its track record.

We have reviewed the profiles of eight comparable companies selected by the Independent Valuer for the purpose of deriving beta and capital structure. We understand that these companies were selected on the basis that they are publicly listed with financial information available as at the Valuation Date, generate major revenue from water supply and related services, and generate revenue mainly in China.

We note that the comparable companies were used only for deriving WACC inputs, and not for deriving valuation multiples. Having considered that these companies are principally engaged in water supply and related services in China, we consider that they form a relevant reference group for assessing market-derived risk and capital structure for WACC purposes.

Having reviewed the WACC components and discussed the same with the Independent Valuer, we consider the discount rate of 10.6% adopted in the Valuation to be reasonable.

Terminal growth rate

The Independent Valuer adopted a terminal growth rate of 2.0%, which was determined by reference to historical GDP and inflation rate. We have discussed with the Independent Valuer and note that the terminal growth rate is intended to reflect long-term growth expectations after the explicit forecast period. Given the regulated and mature nature of the water supply industry and the long-term nature of demand for water supply services, we consider the terminal growth rate of 2.0% to be reasonable.

Calculation

Based on the Valuation Report, the sum of discounted FCFF was approximately RMB189.7 million. After adjusting for net non-operating assets of approximately negative RMB608.7 million, the firm value was approximately negative RMB419.0 million. After further deducting surplus debt of approximately RMB182.3 million, the implied 100% equity value of the Target Company was nil, as the resulting equity value would otherwise be negative.

We note that the nil equity valuation does not mean that the Target Group has no business operation. Rather, it reflects that the future cash flows of the Target Group are insufficient to cover its surplus debt and non-operating liabilities, including liabilities related to the Disputes and Litigations.

Sensitivity considerations

We have reviewed the sensitivity analysis prepared by the Independent Valuer. The sensitivity analysis varied the discount rate by plus or minus 1.0% and the terminal growth rate by plus or minus 1.0%.

The fair value of the Sale Shares remains nil under reasonable changes in the discount rate and terminal growth rate. We have also discussed with the Independent Valuer the sensitivity of the Valuation to other key assumptions, including revenue growth and water purchase costs. We understand that, given the magnitude of the outstanding liabilities and surplus debt, reasonable variations in such assumptions would not result in a materially positive equity value unless there is a fundamental change in the Target Group's litigation exposure and cost structure. In particular, any operational upside would first be absorbed by the Target Group's existing liabilities before generating residual equity value for its shareholders.

Based on our review of the Valuation Report, discussions with the Independent Valuer and the Management, and review of the key assumptions and quantitative inputs described above, we consider that the valuation methodology adopted by the Independent Valuer and the bases and assumptions adopted in the Valuation are fair and reasonable.

As set out in the Valuation Report, based on the above analysis, the implied value of the equity interest of the Target Group amounted to RMB0.

d. Assumptions

The following major assumptions have been adopted in the Valuation:

(i) The Target Group is assumed to have no contingent assets and liabilities or any other off-balance sheet items which should be recognized or valued attributable to the Target Group;

(ii) To continue as a going concern, the Target Group will successfully carry out all necessary activities for the development of its business;

(iii) The contractual parties of relevant agreements will act in accordance with the terms and conditions of the agreements and understandings between the parties and will be renewable upon expiry, if applicable;

(iv) The audited/unaudited financial and operational information of the Target Group as supplied to the Independent Valuer have been prepared in a manner which truly and accurately reflect the financial position of the Target Group as at the respective balance sheet dates;

(v) The availability of financing will not be a constraint on the forecast growth of the Target Group's operations;

(vi) Market trends and conditions where the Target Group operates will not deviate significantly from the economic forecasts in general;

(vii) Key management, competent personnel and technical staff will all be retained to support ongoing operations of the Target Group;

(viii) There will be no material changes in the business strategy of the Target Group and its expected operating structure;

(ix) Interest rates and exchange rates in the localities for the operations of the Target Group will not differ materially from those presently prevailing;

(x) All relevant consents, business certificates, licenses or other legislative or administrative approvals from any local, provincial or national government, or private entity or organization required to operate in the localities where the Target Group operates or intends to operate will be officially obtained and renewable upon expiry unless otherwise stated; and

(xi) There will be no major changes in the political, legal, economic or financial conditions and taxation laws in the localities in which the Target Group operates or intends to operate, which would adversely affect the revenues and profits attributable to the Target Group.

Based on the discussion with the Independent Valuer and the review on the Valuation Report, the Directors concur with the view of the Independent Valuer that the valuation methodology adopted by the Independent Valuer is fair and reasonable to establish the Valuation, and the bases and assumptions for the Valuation are fair and reasonable.

We note that the implied nil equity value does not necessarily indicate that the Target Group has no operational activities; rather, it reflects that, after deducting surplus debt and other non-operating liabilities, the equity value attributable to shareholders is negative. In other words, even if the enterprise value of the Target Group remains positive, such value is insufficient to cover its debt and litigation-related exposures, thereby resulting in nil equity value.

H. Financial effects of the Disposal

Following Completion, all the members of the Target Group will cease to be subsidiaries of the Company, and the results and assets and liabilities of the Target Group will no longer be consolidated to the financial statements of the Group.

Based on preliminary assessment and the unaudited financial information of the Target Group for the six months ended 31 December 2025, the Company is expected to record a gain on disposal of approximately HK$308.01 million in the statement of profit or loss, before deducting transaction costs associated with the Disposal such as professional fees, tax and expenses. The calculation of the gain on Disposal is set out as below:

	HK$'000
Net liabilities of the Target Group as at 31 December 2025	(626,861)
The Company's interest in 49% of the equity interest of the Target Company as at 31 December 2025	(307,162)
Add:	
– Non-controlling interests	(17,248)
– Exchange reserves	25,846
Net liabilities attributable to the shareholders of the Company	298,564
Add:	
– Consideration of RMB8,500,000 (based on the exchange rate of HK$100 to RMB89.9944 as at 31 December 2025)	9,445
Expected gain on Disposal	308,009

We emphasise that such gain is primarily an accounting gain arising from the deconsolidation of net liabilities of the Target Group, rather than a cash profit generated from operations. The Disposal does not in itself improve the underlying profitability of the Remaining Group, but it is expected to improve the Group's net asset position and gearing ratio as a result of deconsolidation.

In our assessment of the fairness and reasonableness of the Disposal, we have not placed primary reliance on the accounting gain itself. Rather, we have considered the accounting gain together with the underlying reasons giving rise to such gain, namely the deconsolidation of the Target Group's net liabilities and the reduction of the Group's financial exposure to the Target Group after Completion.

I. The Remaining Group

Prior to the Completion, the Group is presently providing water supply and related services in two districts in Qingyuan City, namely: (a) Qingcheng District, via the Target Group; and (b) Qingxin District, via the Remaining Water Group. Each of these sub-groups has its own filtering plant, pipeline network, customer base, management team and staff team, capable of operating on standalone basis. By way of illustration, the Target Group and the Remaining Water Group: (a) had approximately 276,000 and 107,000 customer accounts, respectively, as at 30 June 2026; and (b) had 247 and 137 staff headcounts, respectively, as at 31 July 2026. Although the two sub-groups have arranged for interconnection of water networks with the view to leveling water pressure, supply and demand under the supervision and guidance of local water authorities, each sub-group also has its own river water source. As the Remaining Water Group possesses its own river water source which is sufficient to meet its own demand and such water source is entirely independent from the Target Group, the Directors (including the independent non-executive Directors) are of the view that the Disposal is not expected to have any material adverse effect on the normal operations of the Remaining Water Group.

Continuing Transactions

Based on the reasons as set out in the paragraph headed "Continuing Transactions" in the Letter from the Board, the Directors do not expect that any continuing transactions between the Remaining Group and the Target Group would become connected transactions of the Company which cannot meet any conditions for exemptions under the Listing Rules. If there is any subsequent change in circumstances giving rise to any non-exempt connected transactions, the Company will ensure compliance with the relevant provisions of the Listing Rules.

J. Use of proceeds from the Disposal

As set out in the Letter from the Board, the Board intends to apply the Consideration (after deducting costs related to the transaction) for the Group's general working capital, including the payment of office overheads, rental and staff expenses, and professional fees.

Having considered the aforementioned factors, in particular (i) the Consideration of RMB8.5 million is higher than the valuation of the Sale Shares of the Target Group of nil as at the valuation date; (ii) the Consideration was determined with reference to the Target Group's free cash on book after taking into account expected litigation-related costs; (iii) the Target Group was in a significant net liabilities position and had a loss-making track record; (iv) the Disposal is expected to reduce the Group's exposure to the Target Group's liabilities and litigation-related risks upon Completion; and (v) the Group expected to record a gain on Disposal of approximately HK$308.0 million, we concur with the Board's view that, though the Disposal is not conducted in the ordinary and usual course of business of the Group due to its nature as a disposal of equity interest in a subsidiary, the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered:

(i) the nil equity valuation of the Target Group;

(ii) the Target Group's persistent operating losses and net liabilities position;

(iii) the significant and ongoing litigation exposure of the Target Group;

(iv) the improvement in the Group's consolidated financial position upon deconsolidation of the Target Group;

(v) the cash Consideration being higher than the assessed equity value;

(vi) the basis of determining the Consideration with reference to the Target Group's free cash on book after taking into account planned litigation-related costs and expenses; and

(vii) the expected gain on Disposal of approximately HK$308.0 million,

we are of the view that, although the Disposal is not conducted in the ordinary and usual course of business of the Group due to its nature as a disposal of equity interest in a subsidiary, the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and that the Disposal, although involving a connected person, does not constitute a transfer of value away from the Independent Shareholders and hence is in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour, and recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Disposal.

Yours faithfully
For and on behalf of
Red Sun Capital Limited

Robert Siu
Managing Director

Mr. Robert Siu 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 27 years of experience in the corporate finance industry.