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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in CR Construction Group Holdings Limited, you should at once hand this circular accompanying with the form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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### CR Construction Group Holdings Limited

華營建築集團控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

(Stock code: 1582)

### CONTINUING CONNECTED TRANSACTION FOR ENTERING INTO THE MUTUAL PRODUCTS AND SERVICES SUPPLY FRAMEWORK AGREEMENT WITH ZHEJIANG CONSTRUCTION AND NOTICE OF THE EGM

Financial Adviser to the Company

**RAINBOW.**

RAINBOW CAPITAL (HK) LIMITED  
瑞博資本有限公司

Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders



TC CAPITAL  
天財資本

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Capitalised terms used in this cover page shall have the same meaning as those defined in this circular.

A letter from the Board is set out on pages 4 to 19 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 20 to 21 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice and recommendation in respect of the Framework Agreement and the transactions contemplated thereunder is set out on pages 22 to 41 of this circular.

A notice convening the EGM of the Company to be held at Level 26, Standard Chartered Tower of Millennium No. 388 Kwun Tong Road, Kwun Tong, Kowloon, on Thursday, 5 October 2023, at 2:30 p.m. is set out on pages 47 to 48 of this circular. A form of proxy for the EGM is enclosed herein. Whether or not you intend to attend and vote in person at the EGM, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

18 September 2023

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## DEFINITIONS

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*In this circular, the following expressions shall have the following meanings unless the context requires otherwise:*

“Acquisition”	the acquisition by the Company of the entire equity interest in the Environment Engineering Company, as disclosed in the circular of the Company dated 31 March 2023, which was approved by the Independent Shareholders in the extraordinary general meeting of the Company held on 28 April 2023
“Board”	the board of Directors of the Company
“Company”	CR Construction Group Holdings Limited, a company incorporated in the Cayman Islands as an exempted company with limited liability and registered as a non-Hong Kong company in Hong Kong, the shares of which are listed on the Stock Exchange (Stock Code: 1582)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“continuing connected transaction”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Effective Date”	the effective date of the Framework Agreement shall be the latest date among the following: <ol style="list-style-type: none"><li>1. each party having executed the Framework Agreement in accordance with its articles of association and applicable laws;</li><li>2. each party having performed its internal decision-making procedures in accordance with the relevant law, the Listing Rules and its articles of association; and</li><li>3. the Company having obtained approval from the Independent Shareholders in relation to the transactions contemplated under the Framework Agreement in accordance with the Listing Rules and having complied with the rules in relation to the continuing connected transaction under the Listing Rules</li></ol>
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to, inter alia, consider and, if thought fit, approve the Framework Agreement and the Proposed Annual Caps

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## DEFINITIONS

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“Environment Engineering Company”	Zhejiang Construction Investment Environment Engineering Company Limited* (浙江建投環保工程有限公司), a limited company established in the PRC
“Environment Engineering Group”	the Environment Engineering Company and its subsidiaries
“Framework Agreement”	a mutual products and services supply framework agreement dated 13 July 2023 entered into between the Company (for itself and on behalf of its subsidiaries) and Zhejiang Construction (for itself and on behalf of its subsidiaries, which excludes the Group)
“Government-guidance Price”	the price determined from time to time by the parties within the range as provided under the laws, regulations, decisions or orders or in respect of particular types of products or services promulgated by the central government, provincial government or other regulatory authorities in the PRC
“Government-prescribed Price”	the price jointly determined by the relevant price control authorities, the industry regulators in the PRC and the relevant manufacturing enterprises involved in the particular transaction(s)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company, comprising all the independent non-executive Directors, namely The Honourable Tse Wai Chun Paul JP, Mr. Ho Man Yiu Ivan, Mr. Lau Pak Shing and Mr. Lai Yuk Fai Stephen JP, has been established for the purpose of advising and giving recommendation(s) to the Independent Shareholders in respect of the Framework Agreement and the Proposed Annual Caps
“Independent Financial Adviser”	TC Capital International Limited, a corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Framework Agreement and the Proposed Annual Caps

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## DEFINITIONS

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“Independent Shareholders”	the Shareholders who are not required to abstain from voting at the EGM
“Independent Third Parties”	any third parties that is not a connected person of the Company
“Latest Practicable Date”	13 September 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“PRC”	the People’s Republic of China, and for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Proposed Annual Caps”	the proposed annual caps as contemplated under the Framework Agreement for the three years ending 31 December 2025 as shown under the paragraph headed “II. Proposed Annual Caps”
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	the holder(s) of the issued Shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhejiang Construction”	Zhejiang Construction Investment Group Co., Ltd.* (浙江省建設投資集團股份有限公司), a limited liability company established in the PRC and listed on Shenzhen Stock Exchange (SZSE Security Code: 002761)
“Zhejiang Construction Group”	Zhejiang Construction and its subsidiaries, which exclude the Group
“%”	per cent

\* *The English translation of the Chinese name is for identification purposes only, and should not be regarded as the official English translation of such name.*

*For the purpose of illustration only and unless otherwise stated, conversion of RMB into Hong Kong dollars in this circular is based on the exchange rate of HK\$1 to RMB0.9. Such conversion should not be construed as a representation that any amount has been, could have been, or may be, exchanged at this or any other rate.*

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## LETTER FROM THE BOARD

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### CR Construction Group Holdings Limited

華營建築集團控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1582)**

*Executive Directors:*

Mr. Guan Manyu (*Chairman*)  
Mr. Li Kar Yin (*Chief Executive Officer*)  
Mr. Chan Tak Yiu

*Non-executive Director:*

Mr. Yang Haojiang  
Ms. Ding Shaojian  
Mr. Fan Jingbo

*Independent non-executive Directors:*

The Honourable Tse Wai Chun Paul *JP*  
Mr. Ho Man Yiu Ivan  
Mr. Lau Pak Shing  
Mr. Lai Yuk Fai Stephen *JP*

*Registered Office in Cayman Islands:*

Cricket Square  
Hutchins Drive  
P. O. Box 2681  
Grand Cayman, KY1-1111  
Cayman Islands

*Headquarters and Principal Place  
of Business in Hong Kong:*

Units 3–16, 32/F  
Standard Chartered Tower  
Millennium City 1  
388 Kwun Tong Road  
Kwun Tong  
Kowloon  
Hong Kong

18 September 2023

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTION  
FOR ENTERING INTO THE MUTUAL PRODUCTS AND  
SERVICES SUPPLY FRAMEWORK AGREEMENT WITH  
ZHEJIANG CONSTRUCTION  
AND  
NOTICE OF THE EGM**

**I. THE FRAMEWORK AGREEMENT**

The Board hereby announces that, on 13 July 2023 (after trading hours), the Company (for itself and on behalf of its subsidiaries) entered into the Framework Agreement with Zhejiang Construction (for itself and on behalf of its subsidiaries, which excludes the Group) with a term commencing from the Effective Date and ending on 31 December 2025. Pursuant to the Framework Agreement, (i) the Group will supply the Group's Products (as defined below) and Group's Services (as defined below) to Zhejiang Construction Group; and (ii) Zhejiang Construction Group will supply ZC's Products (as defined below) and ZC's Services (as defined below) to the Group.

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## LETTER FROM THE BOARD

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The principal terms of the Framework Agreement are summarised as follows:

### **Date**

13 July 2023 (after trading hours)

### **Parties**

- (1) the Company (for itself and on behalf of its subsidiaries); and
- (2) Zhejiang Construction (for itself and on behalf of its subsidiaries, which excludes the Group).

As at the Latest Practicable Date, Zhejiang Construction is indirectly interested in approximately 72.23% of the entire issued share capital of the Company. Accordingly, Zhejiang Construction is the controlling shareholder of the Company and hence a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the entering into of the Framework Agreement by the Company and Zhejiang Construction constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

### **Duration**

From the Effective Date and ending on 31 December 2025.

### **Main scope**

The following transactions are contemplated under the Framework Agreement:

- (1) Products and services to be supplied by the Group to the Zhejiang Construction Group, including:
  - (a) the sewage treatment and environmental protection construction engineering related construction materials and equipment, including but not limited to facilities and equipment in relation to sewage treatment plants, water plants and comprehensive environmental management, as well as waste gas treatment equipment and other environmental protection-related products (the “**Group’s Products**”);

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## LETTER FROM THE BOARD

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- (b) (i) sewage and reclaimed water treatment related engineering services, including but not limited to the provision of operation and maintenance services for sewage pipes and related equipment of sewage treatment plants; provision of construction, repair and equipment installation services for sewage treatment plants; provision of engineering services for zero direct sewage discharge area, pipelines transformation, household connection project and in-depth investigation services; construction, maintenance, management, commissioning and trial operation of sewage upgrading and renovation projects; and
  - (ii) environmental protection related engineering services, including but not limited to solid waste treatment; garbage disposal; comprehensive land improvement; ecology and soil restoration and governance; environmental protection engineering design and consultation; environmental protection technology development and technical consulting services; construction engineering; mechanical and electrical installation engineering; municipal engineering; design and construction of landscaping and greening projects; design, construction and operation of sanitation integration projects; design, construction and operation of comprehensive environmental management related projects; environmental protection equipment sales and installation services; comprehensive management of water environment; water and soil conservation monitoring, construction and facility acceptance; consulting services for water and soil conservation facilities (the “**Group’s Services**”).
- (2) Products and services to be supplied by the Zhejiang Construction Group to the Group, including:
  - (a) (i) office supplies, daily necessities and equipment; and
  - (ii) general construction systems and equipment, including but not limited to denitrification filter process package, ultrafiltration membrane process package, magnetic coagulation process package, sporadic process package, fenton process package, deodorization system process package, sludge dewatering system process package, templates, square wood, steel and interior and exterior wall coatings, municipal engineering ancillary materials and landscaping species, as and the related ancillary services (the “**ZC’s Products**”);



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## LETTER FROM THE BOARD

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- (b) (i) office leases;
- (ii) property management and public administration services, human resource management;
- (iii) canteen catering services; and
- (iv) operation and maintenance management and consulting services for sewage treatment plants (the “**ZC’s Services**”).

### **General principal and price determination**

The terms and price of the products and services to be supplied or procured under the Framework Agreement shall be fair and reasonable and be consistent with the terms of the Framework Agreement.

The relevant services and products should be provided or procured in accordance with the following general pricing principles and sequence:

- (a) the agreed price of the relevant products and/or relevant services (as the case may be) stipulated in the relevant main contract to be entered into between Zhejiang Construction Group/the Group (as the case may be) and the relevant governmental units. The price of the main contract will be determined through open tender.

In determining the tender price, Zhejiang Construction Group/the Group (as the case may be) takes into account: (i) the government pricing standards and/or the Government-prescribed Price and/or the Government-guidance Price set out in the relevant pricing regulations and standards implemented by the Chinese government; (ii) the prevailing market prices of the relevant products and/or services; (iii) the engineering drawings and bills of quantities for the relevant products and/or services issued by the relevant governmental units; (iv) the bidding price ceiling set by the relevant governmental units for certain relevant products and/or services (where applicable); and (v) the historical profit margin of the relevant products and/or services. Upon winning the bid, the Zhejiang Construction Group/the Group (as the case may be) and the relevant government units will enter into a main contract, in which the payment arrangement and the agreed price of the relevant services and/or goods will be specified. If the main contract is subcontracted by the Zhejiang Construction Group/the Group (as the case may be) to the Group/the Zhejiang Construction Group (as the case may be) the relevant contract price thereof will be determined based on the agreed price stipulated in the main contract (the “**Main Contract Price**”);

- (b) where there is no Main Contract Price, the Government-prescribed Price shall apply;
- (c) where there is no Government-prescribed Price, the Government-guidance Price shall apply;

For example, on 1 January 2019, the Department of Housing and Urban-Rural Development of Zhejiang Province\* (浙江省住房和城乡建设廳), Zhejiang Provincial Development and Reform Commission\* (浙江省發展和改革委員會) and Zhejiang Provincial Department of Finance\* (浙江省財政廳) jointly promulgated the Notice on Pricing Regulation on construction and engineering work in the Zhejiang Province (2018 Edition)\* (《浙江省建設工程計價規則 (2018 版)》), in which it sets out the guidance prices for construction and engineering work in the Zhejiang Province. Such guidance prices may be updated by the relevant governmental authorities from time to time.

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## LETTER FROM THE BOARD

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- (d) where there is no Government-guidance Price, the transaction price of the products and/or services shall be determined by the price under the non-connected transactions entered into between the Company and the Independent Third Parties (the “**Market Price**”). For determining whether the relevant transaction price is fair and reasonable, the Company is entitled to obtain comparable market prices from at least two Independent Third Parties while the Company shall also take into account the costs, quantities, qualities, taxation, insurance, market condition and timing arrangement in ensuring that under the same terms and conditions: (1) (in the event of supply of products or services by the Group to the Zhejiang Construction Group) the relevant terms and conditions shall be equal to or not less favourable than those available to the Independent Third Parties offered by the Group; and (2) (in the event of supply of products or services by the Zhejiang Construction Group to the Group) the relevant terms and conditions shall be equal to or not less favourable than those available to the Group offered by the Independent Third Parties;
- (e) where there is no Market Price, the transaction price to be agreed between the relevant parties in relation to the products and/or services to be provided or procured shall be equivalent to the reasonable costs incurred in supplying the same plus reasonable profit margin (the “**Contractual Price**”). Reasonable costs means the actual costs incurred in supplying the products and/or services as agreed by the relevant parties, while reasonable profit margin means the profit margin to be determined by the relevant parties in accordance with the terms of the Framework Agreement. The relevant parties shall determine whether the profit margin is fair and reasonable with reference to (to the extent available): (i) the historical average price of the previous transactions, by making reference to the historical average prices of at least two similar products and/or services which were transacted between the Group and the Independent Third Parties within a year; and/or (ii) the historical average price in relation to the relevant products and/or services issued by the relevant industrial associations, including reviewing industry data released by the National Bureau of Statistics in the PRC; and/or (iii) the profit margin of comparable products and/or services disclosed by other listed companies, by making reference to the published financial reports of other comparable companies (i.e. companies which are principally engaged in the provision of construction services in the PRC) for the latest financial year or the official websites of other listed companies (if practicable).

In a situation which the reasonable profit margin cannot be ascertained through the basis as disclosed above, the reasonable profit margin will be estimated by making reference to the historical gross profit margin of the transactions between the Environment Engineering Group and the Zhejiang Construction Group in the last three financial years prior to the Acquisition.

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## LETTER FROM THE BOARD

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In particular,

- (1) in respect of the Group's Products, the Group's Services, the ZC's Products (excluding office supplies, daily necessities and equipment), and the operation and maintenance management and consulting services for sewage treatment plants to be provided by Zhejiang Construction Group to the Group, (a) the Main Contract Price shall apply; (b) if there is no Main Contract Price, the Government-prescribed Price shall apply; (c) if there is no Government-prescribed Price, the Government-guidance Price shall apply; (d) if there is no Government-guidance Price, the Market Price shall apply; and (e) if there is no available Market Price, the Contractual Price shall apply; and
- (2) in respect of the office supplies, daily necessities and equipment, office leases, property management and public administration services, human resource management and canteen catering services to be provided by Zhejiang Construction Group to the Group, (a) the Market Price shall apply; and (b) the if there is no available Market Price, the Contractual Price shall apply.

### **Execution of individual agreement**

The Framework Agreement is a framework agreement which provides the mechanism for the operation of the continuing connected transactions contemplated thereunder. It is envisaged that from time to time and as required, individual agreements will be entered into between the Group and the Zhejiang Construction Group setting out the specific terms of services and/or products to be provided or procured, including but not limited to the main scope of agreement, payment term, payment and the delivery method. Such terms shall be fair and reasonable and be consistent with the principles and the terms of the Framework Agreement.

## **II. PROPOSED ANNUAL CAPS**

### **Historical amounts**

Reference is made to the announcements of the Company dated 31 January 2023 and 10 February 2023 respectively and a circular of the Company dated 31 March 2023 in relation to, among others, the Acquisition.

To the best knowledge, information and belief of the Directors, upon the completion of the Acquisition, for the period from 8 May 2023 to 10 July 2023, being the latest practicable information available as at 13 July 2023, provision of the Group's Products and Group's Services by the Group to the Zhejiang Construction Group amounted to approximately RMB6,600 (equivalent to approximately HK\$7,333), whereas procurement of the ZC's Products and ZC's Services by the Group from the Zhejiang Construction Group amounted to approximately RMB188,309 (equivalent to approximately HK\$209,232), respectively.

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## LETTER FROM THE BOARD

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### Proposed annual caps

The proposed annual caps for the transactions contemplated under the Framework Agreement for each of the three years ending 31 December 2025 are set out as follows:

	<b>For the year ending 31 December</b>		
	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<i>(Note (i))</i> <i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(1) Transactions contemplated under the provision of the Group's Products and Group's Services by the Group to the Zhejiang Construction Group (the "Sales Annual Caps")	55,000	110,000	110,000
(2) Transactions contemplated under the procurement of the ZC's Products and ZC's Services by the Group from the Zhejiang Construction Group (the "Purchase Annual Caps")	52,500	105,000	105,000

*Note:*

(i) *The proposed annual cap for the year ending 31 December 2023 is for a period commencing from the Effective Date and ending on 31 December 2023.*

### The Sales Annual Caps

The Sales Annual Caps for the period commencing from the Effective Date to the year ending 31 December 2023 and the two years ending 31 December 2025 are determined with reference to, among other things:

	<b>2023</b>	<b>2024</b>	<b>2025</b>
The Indicative Contract Sum (RMB million) (i)	1,000	1,000	1,000
Historical average completion rate (ii)	95%	95%	95%
Historical average portion of connected transactions (iii)	15%	15%	15%
Historical average contract duration (iv)	< 1 year	< 1 year	< 1 year
Timing factor for 2023 (v)	0.5	N/A	N/A
Exchange rate (vi)	0.9	0.9	0.9
Expected connected sales (HK\$ million)			
((i)*(ii)*(iii)*(iv)*(v))/(vi)	80	159	159
<b>The Sales Annual Caps (HK\$ million)</b>	<b>55</b>	<b>110</b>	<b>110</b>

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## LETTER FROM THE BOARD

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- (i) the estimated indicative contract sum set by Zhejiang Construction to the Environment Engineering Group (the “**Indicative Contract Sum**”) for the three years ending 31 December 2025 with reference to the Indicative Contract Sum of RMB1,000 million for the year ending 31 December 2023, after taking into account of the (i) anticipated increase in the provision of the Group’s Products and the Group’s Services based on the Company’s understanding from Zhejiang Construction Group that an increasing effort of Zhejiang Construction Group was spent to participate in more project tendering from the governmental units in the PRC, which is expected to lead to an increase of subcontracting work to be granted to the Environment Engineering Group; (ii) the estimated growth potential in the principal business of the Environment Engineering Group. According to the report on the Development of China’s Environmental Protection Industry for 2016-2021 and data issued by Qianzhan Industry Institute\* (前瞻產業研究院), a research institute which primarily provides business information consulting; planning and database services in the PRC which is listed on the National Equities Exchange and Quotations (Stock Code: 839599), revenue of the environmental service industry market in the PRC increased from approximately RMB1,100 billion in 2016 to approximately RMB2,200 billion in 2021. It is expected to increase to approximately RMB2,500 billion in 2022 and further increase to over RMB4,400 billion in 2027 which is expected to have a CAGR of approximately 12% on the environmental service industry market in the PRC from 2022 to 2027; and (iii) increment of historical indicative contract sum set by Zhejiang Construction to the Environment Engineering Group in 2022, which demonstrated an increase of over 20% as compared to that in the prior year.

In determining the Indicative Contract Sum of RMB1,000 million for each of the two years ending 31 December 2025, the Company has based on the estimates of the Indicative Contract Sum for the year ending 31 December 2023 that does not take into account of any possible increment over the period. The estimation of the same amount of Indicative Contract sum as compared to that of 2023 for each of the two years ending 31 December 2025 was therefore considered to be prudent;

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## LETTER FROM THE BOARD

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- (ii) the estimated completion rate of the Indicative Contract Sum by Environment Engineering Group with reference to the average of the relevant historical completion rate of approximately 95% for the three years ended 31 December 2022.

In determining the estimated completion rate of the Indicative Contract Sum by Environment Engineering Group of approximately 95% for each of the three years ending 31 December 2025 (the “**Estimated Completion Rate**”), the Company considers such estimation to be justifiable given (i) it is made with reference to the historical average completion rate after taking into account of all executed contracts by the Environment Engineering Group for the three years ended 31 December 2022; and (ii) the stable historical average completion rate of the Indicative Contract Sum for the three years ended 31 December 2022;

- (iii) the estimated portion of contracts to be entered into between the Environment Engineering Group with the Zhejiang Construction Group out of the total estimated contracts to be entered (i.e. the estimated portion of connected transactions) with reference to the average of the relevant historical portion of approximately 15% for the three years ended 31 December 2022 (i.e. the historical average portion of connected transactions).

In determining the estimated portion of contracts to be entered into between the Environment Engineering Group with the Zhejiang Construction Group out of the total estimated contracts to be entered of approximately 15% for each of the three years ending 31 December 2025 (the “**Estimated Connected Transaction Portion**”), the Company considers such estimation to be justifiable given it is made with reference to the historical average portion of all executed contracts which were entered between the Environment Engineering Group and the Zhejiang Construction Group for the three years ended 31 December 2022;

- (iv) the estimated duration of contracts to be entered by the Environment Engineering Group with the Zhejiang Construction Group with reference to the relevant historical duration of generally less than one year for the three years ended 31 December 2022.

In determining the estimated duration of contracts to be entered by the Environment Engineering Group with the Zhejiang Construction Group of approximately one year for each of the year ending 31 December 2025 (the “**Estimated Contract Duration**”), the Company has taken into account into the historical duration of contracts entered between the Environment Engineering Group with the Zhejiang Construction Group of generally less than one year. The Estimated Contract Duration of approximately one year for the three years ending 31 December 2025 was therefore considered to be prudent;

- (v) the expected approximate timing of the approval by the Independent Shareholders on the Framework Agreement, which is estimated to be the second half of 2023; and
- (vi) the estimated conversion of RMB into Hong Kong dollars with reference to the exchange rate of HK\$1 to RMB0.9.

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## LETTER FROM THE BOARD

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Taking into account of the (i) anticipated increase in the provision of the Group's Products and the Group's Services based on the understandings from the Zhejiang Construction Group, and the fact that the Sales Annual Caps, which are of revenue in nature, are generally set in a way to accommodate the potential growth of the Group's business and allow greater flexibility for the Group to conduct its business; (ii) estimated growth potential in the principal business of the Environment Engineering Group; (iii) estimation of the Estimated Completion Rate, the Estimated Connected Transaction Portion and the Estimated Contract Duration in deriving the Sales Annual Caps, which are principally made with reference to the relevant average historical figures for the past three years which are considered to be reasonable and prudent; and (iv) the Sales Annual Caps were estimated below the expected connected sales for the three years ending 31 December 2025, which are considered to be prudent; the Directors are of the view that the Sales Annual Caps are fair and reasonable.

### The Purchase Annual Caps

The Purchase Annual Caps for the period commencing from the Effective Date to the year ending 31 December 2023 and the two years ending 31 December 2025 are determined based on:

	2023	2024	2025
The Sales Annual Caps (HK\$ million) (i)	55	110	110
Historical average gross profit margin (ii)	5%	5%	5%
<b>The Purchase Annual Caps (HK\$ million)</b>			
<b>((i) x (1 - (ii)))</b>	<b>52.5</b>	<b>105</b>	<b>105</b>

- (i) the Sales Annual Caps for the period commencing from the Effective Date to 31 December 2023 and the two years ending 31 December 2025.

Given (i) the projected increase in the subcontracting work to be granted from the Zhejiang Construction Group to the Environment Engineering Group, which is expected to constitute a relatively larger portion out of the total estimated revenue of the Environment Engineering Group after the Acquisition compared to the sales to be generated from the Independent Third Parties, shall directly lead to an increase in the procurement of the ZC's Products and ZC's Services from the Zhejiang Construction Group, in particular the (a) operation and maintenance management and consulting services for sewage treatment plants (part of the ZC's Services) and (b) general construction systems and equipment (part of the ZC's Products), given that both of which are expected to be purchased by the Environment Engineering Group principally for generating the Group's Products and the Group's Services. Also, in view of the relatively greater familiarity of the Zhejiang Construction Group with the (a) operation and maintenance management and consulting services for sewage treatment plants; and (b) general construction systems and equipment than the other types of the ZC's Products and the ZC's Services (i.e. office supplies, daily necessities and equipment, office lease services, property management and public administration services as well as human resource management services and canteen catering services), both of which are expected to constitute a major portion of the

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## LETTER FROM THE BOARD

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Purchase Annual Caps for the three years ending 31 December 2025; (b) an undertaking (the “**Undertaking**”) from Zhejiang Construction to the Company that it will use its best endeavour to offer an equivalent or no less favourable terms and conditions as compared to those offered by the Independent Third Parties for the Group’s procurement of ZC’s Products and ZC’s Services for the three years ending 31 December 2025, which is expected to lead to an increase in the relevant purchases from Zhejiang Construction Group with respect to the corresponding increasing subcontracting work to be granted from the Zhejiang Construction Group, the Company considers that the Sales Annual Caps, which has taken into account the estimated subcontracting work to be granted from the Zhejiang Construction Group, are one of the key parameters to estimate the Purchase Annual Caps, particularly in view of the fact that it is the first transactions of this type after the Acquisition;

- (ii) the estimated gross profit margin of the Environment Engineering Group for the contracts to be entered with the Zhejiang Construction Group for the three years ending 31 December 2025 with reference to the historical average of the relevant gross profit margins of approximately 5% for the three years ended 31 December 2022 (the “**Historical Average Gross Profit Margin**”).

In determining the estimated gross profit margin of the Environment Engineering Group for the contracts to be entered with the Zhejiang Construction Group of approximately 5% for the each of three years ending 31 December 2025 (the “**Estimated Gross Profit Margin**”), the Company considers such estimation to be justifiable given (i) it is predominantly made with reference to the Historical Average Gross Profit Margin, after taking into account of the revenue to be generated from the subcontracting agreements which were entered between the Environment Engineering Group and the Zhejiang Construction Group and the corresponding subcontracting costs to be incurred by the Environment Engineering Group for the three years ended 31 December 2022; (ii) the subcontracting cost incurred by the Environment Engineering Group was and is expected to be the largest portion of the overall direct operating costs of the projects involved.

Taking into account of the (i) anticipated business needs of the Group for the three years ending 31 December 2025, which is expected to lead to the increase in the procurement of the (a) operation and maintenance management and consulting services for sewage treatment plants (part of the ZC’s Services) and (b) general construction systems and equipment (part of the ZC’s Products) from the Zhejiang Construction Group, and accordingly both of which is expected to constitute a major portion of the ZC’s Services and ZC’s Products for the three years ending 31 December 2025; (ii) Undertaking given by Zhejiang Construction which is expected to generally lead to an increase in the relevant purchases from Zhejiang Construction; (iii) estimation of the Estimated Gross Profit Margin in deriving the Purchase Annual Caps, which are made with reference to the Historical Average Gross Profit Margin for the past three years which are considered to be reasonable and prudent; and (iv) the potential growth in the industry in which the Environment Engineering Group operates, which is expected to drive the demand of the procurement of the ZC’s Services and ZC’s Products from the Zhejiang Construction Group, the Directors are of the view that the Purchase Annual Caps are fair and reasonable.



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## LETTER FROM THE BOARD

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### III. REASONS FOR AND BENEFIT OF ENTERING INTO THE FRAMEWORK AGREEMENT

The purpose of entering into the Framework Agreement is to better regulate and streamline the terms of continuing connected transactions between the Group and the Zhejiang Construction Group in the future.

Reference is made to the announcements of the Company dated 31 January 2023 and 10 February 2023 respectively and a circular of the Company dated 31 March 2023 in relation to, among others, the Acquisition. Prior to the completion of the Acquisition, the Environment Engineering Group has been conducting transactions, which are similar to the continuing connected transactions contemplated under the Framework Agreement, with Zhejiang Construction Group. Upon completion of the Acquisition, Environment Engineering Company became a wholly-owned subsidiary of the Group and the financial results of the Environment Engineering Group has been consolidated into the financial statement of the Group.

Based on the following reasons, the Directors (including the independent non-executive Directors) are of the view that the Framework Agreement and the transactions contemplated thereunder are beneficial for the Company to enter into the Framework Agreement:

1. the historical connection and long-standing business cooperation relationship between the Environment Engineering Group and Zhejiang Construction Group;
2. Zhejiang Construction Group, with its listing status in Shenzhen Stock Exchange and state-owned background, has been and will be having competitive advantages in being awarded the construction contracts in relation to sewage treatment plants or other environmental improvement and protection related infrastructure. In light of the relationship between the Group and Zhejiang Construction Group, Zhejiang Construction Group might sub-contract certain works under such construction contracts to the Environment Engineering Group under the same terms and conditions as compared to that of the Independent Third Parties and will therefore facilitate the overall operations and growth of the Group's business, which in return will enhance the Group's influence in environmental service industry in the PRC and generate stable revenue stream of the Group; and
3. Zhejiang Construction Group, which is familiar with the business and needs of the Environment Engineering Group, can always ensure the standard and stable supply of the ZC's Products and ZC's Services so as to meet the requirement of the Environment Engineering Group.

The Directors (including the independent non-executive Directors) are of the view that the Framework Agreement and the transactions contemplated thereunder have been entered into by the Group in the ordinary and usual course of business and on normal commercial terms, and are therefore fair and reasonable and in the interests of the Company and its Shareholders as a whole.

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## LETTER FROM THE BOARD

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### IV. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Zhejiang Construction is indirectly interested in approximately 72.23% of the entire issued share capital of the Company. Accordingly, Zhejiang Construction is the controlling shareholder of the Company and hence a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the entering into of the Framework Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Proposed Annual Caps under the Framework Agreement exceeds 5%, the transactions contemplated thereunder constitute a non-exempt continuing connected transaction of the Company, which is subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

### V. INTERNAL CONTROL MEASURES

In addition to compliance with the requirements on annual review by external auditors and independent non-executive Directors under the Listing Rules in respect of the Group's continuing connected transactions, the Company and Environment Engineering Company has designated relevant personnel to perform internal review and control over the continuing connected transactions. Except for (i) the subcontracting contracts to be granted to the Group by Zhejiang Construction Group (or vice versa) which shall predominantly follow the Main Contract Price (i.e. general pricing principles (a) under the paragraph headed "I. The Framework Agreement – General principal and price determination"), of which the relevant main contracts shall generally be based on the pricing terms and conditions of the public tendering documents to be stipulated by the relevant governmental units; and (ii) following an objective pricing mechanism with reference to the Government-prescribed Price (where there is no Main Contract Price) and the Government-guidance Price (where there is no Government-prescribed Price) (i.e. general pricing principles (b) and (c) under the paragraph headed "I. The Framework Agreement – General principal and price determination" respectively), the Company and the Environment Engineering Company have implemented certain internal control measures, which include, reviewing individual contracts signed between the Company and connected persons, reviewing the performance of procedures prior to signing of individual contracts as well as the fulfilment of transactions thereunder, regularly inspecting the specific terms of the Company's transactions with connected persons and comparing it with the terms of the comparable transactions of the Company entered into with Independent Third Parties, to ensure that the pricing and other contractual terms for the Group's continuing connected transactions under individual contracts are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and that the continuing connected transactions are conducted in accordance with the individual contracts and in compliance with the applicable laws and regulations and the general pricing principles under the Framework Agreement.

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## LETTER FROM THE BOARD

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To ensure that the continuing connected transactions under the Framework Agreement do not exceed the Proposed Annual Caps, the relevant personnel of the Company and Environment Engineering Company shall review the continuing connected transactions on a quarterly basis. In the event that the amount of the continuing connected transactions incurred and to be incurred for a financial year is expected to reach the Proposed Annual Caps, the relevant personnel will follow up forthwith by reporting and proposing a response to the management of the Company, and in case that a revision to the Proposed Annual Caps is required, report particulars to the Board and hold a Board meeting for considering the matters thereabout to ensure compliance of the requirements under the Listing Rules.

The Company also arranges compliance training for the Directors, senior management and staff from the relevant departments of the Company and its subsidiaries from time to time, primarily focusing on the requirements of the Listing Rules.

### VI. INFORMATION ON THE PARTIES

The Company is a company incorporated in the Cayman Islands as an exempted company with limited liability on 20 July 2017 and is an investment holding company. As at the Latest Practicable Date, the Group is principally engaged in (i) contractor services for building construction works and repair, maintenance, alteration and addition works projects across public and private sectors in Hong Kong, Malaysia and the United Kingdom; and (ii) construction, rehabilitation and operation of sewage and reclaimed water treatment plants as well as water distribution plants and other environmental related facilities and infrastructure in the PRC.

Zhejiang Construction is a company listed on Shenzhen Stock Exchange (SZSE Security Code: 002761) and one of the controlling shareholders of the Company. Based on the latest public information available, Zhejiang Construction is ultimately owned as to (i) approximately 35.90% by Zhejiang State-owned Capital Operation Company Limited\* (浙江省國有資本運營有限公司) (which is wholly-owned by the State-owned Assets Supervision and Administration Commission of the Zhejiang Provincial Government\* (浙江省人民政府國有資產監督管理委員會)); (ii) approximately 7.58% by ICBC Financial Asset Investment Co. Ltd.\* (工銀金融資產投資有限公司); (iii) approximately 5.00% by China Cinda Asset Management Co., Ltd.\* (中國信達資產管理股份有限公司); (iv) approximately 4.82% by Zhejiang Jianyang Investment Company Limited.\* (浙江建陽投資股份有限公司); (v) approximately 4.21% by Deson Development International Holdings Investment Limited.\* (迪臣發展國際集團投資有限公司); (vi) approximately 5.00% by Hung Wan Construction Co., Ltd.\* (鴻運建築有限公司); (vii) approximately 4.34% by Zhejiang Financial Development Co. Ltd\* (浙江省財務開發有限責任公司); and (viii) the remaining approximately 33.15% held by other minority shareholders. As at the Latest Practicable Date, the Zhejiang Construction Group is principally engaged in building construction business, engineering related services and investment in infrastructure projects.

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## LETTER FROM THE BOARD

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### VII. GENERAL

An Independent Board Committee comprising all the independent non-executive Directors, namely The Honourable Tse Wai Chun Paul JP, Mr. Lau Pak Shing, Mr. Ho Man Yiu Ivan and Mr. Lai Yuk Fai Stephen JP, has been established by the Company to advise and provide recommendation(s) to the Independent Shareholders in respect of the Framework Agreement and the Proposed Annual Caps. In such connection, the Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

The EGM will be convened and held for the Independent Shareholders to, inter alia, consider and, if thought fit, approve the Framework Agreement and the Proposed Annual Caps. As at the Latest Practicable Date, Zhejiang Construction is indirectly interested in approximately 72.23% of the entire issued share capital of the Company, which are directly held by its indirect wholly-owned subsidiary, CR Construction Investments Limited. In view of the interests of Zhejiang Construction in the Framework Agreement and the transactions contemplated thereunder, CR Construction Investments Limited will abstain from voting at the EGM. Save for the aforementioned and to the best knowledge, information and belief of the Directors, no other Shareholder has a material interest in the Framework Agreement and the transactions contemplated thereunder and is required to abstain from voting on the resolution(s) of the Company in approving the Framework Agreement and the transactions contemplated thereunder at the EGM.

None of the Directors had a material interest in the Framework Agreement and the transactions contemplated thereunder. However, since Mr. Guan Manyu, Mr. Yang Haojiang, Ms. Ding Shaojian and Mr. Fan Jingbo also hold directorship and/or management positions in the Zhejiang Construction Group, each of them has voluntarily abstained from voting on the Board resolution(s) approving the Framework Agreement and the transaction contemplated thereunder.

### RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 20 to 21 of this circular which contains its recommendation to the Independent Shareholders in relation to the Framework Agreement and the Proposed Annual Caps.

Your attention is also drawn to the letter from the Independent Financial Adviser set out on pages 22 to 41 of this circular which contains its recommendations to the Independent Board Committee and the Independent Shareholders in relation to the Framework Agreement and the Proposed Annual Caps and the principal factors and reasons taken into account in arriving at its recommendation.

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## LETTER FROM THE BOARD

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The Directors (including the independent non-executive Directors) are of the view that the terms of the Framework Agreement have been entered into by the Group in the ordinary and usual course of business and on normal commercial terms, and are therefore fair and reasonable and in the interests of the Company and its Shareholders as a whole.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By order of the board of  
**CR Construction Group Holdings Limited**  
**Guan Manyu**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of a letter of advice from the Independent Board Committee, prepared for the purpose of inclusion in this circular, setting out its recommendation to the Independent Shareholders in relation to the Framework Agreement and the Proposed Annual Caps:*



### **CR Construction Group Holdings Limited**

**華營建築集團控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1582)**

18 September 2023

*To the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTION  
FOR ENTERING INTO THE MUTUAL PRODUCTS AND  
SERVICES SUPPLY FRAMEWORK AGREEMENT WITH  
ZHEJIANG CONSTRUCTION  
AND  
NOTICE OF THE EGM**

We refer to the circular of the Company to the Shareholders dated 18 September 2023 (the “**Circular**”), of which this letter forms part. Capitalised terms used herein will have the same meanings as defined in the Circular, unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to advise you on the Framework Agreement and the Proposed Annual Caps. TC Capital International Limited has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out on pages 22 to 41 of this circular. Your attention is also drawn to the “Letter from the Board” in the Circular and the additional information set out in the appendix thereto.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered the Framework Agreement and the Proposed Annual Caps and taking into account the advice of the Independent Financial Adviser, in particular the principal factors, reasons and recommendations as set out in their letter, we consider that (i) the Framework Agreement and the Proposed Annual Caps are on normal commercial terms and are fair and reasonable; and (ii) the entering into of the Framework Agreements is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Framework Agreement and the Proposed Annual Caps.

Yours faithfully,  
the Independent Board Committee

**The Honourable Tse Wai Chun Paul JP**      **Mr. Ho Man Yiu Ivan**      **Mr. Lau Pak Shing**

**Mr. Lai Yuk Fai Stephen JP**  
*Independent non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Set out below is the text of a letter received from TC Capital International Limited to the Independent Board Committee and the Independent Shareholders in respect of the Framework Agreement and the Proposed Annual Caps, for the purpose of inclusion in this circular.*



18 September 2023

*The Independent Board Committee and the Independent Shareholders  
CR Construction Group Holdings Limited*

Dear Sir/Madam,

### **CONTINUING CONNECTED TRANSACTION FOR ENTERING INTO THE MUTUAL PRODUCTS AND SERVICES SUPPLY FRAMEWORK AGREEMENT WITH ZHEJIANG CONSTRUCTION**

#### **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 Framework Agreement and the Proposed Annual Caps.

On 13 July 2023 (after trading hours), the Company (for itself and on behalf of its subsidiaries) entered into the Framework Agreement with Zhejiang Construction Investment Group Co., Ltd.\* (浙江省建設投資集團股份有限公司) (“**Zhejiang Construction**”) (for itself and on behalf of its subsidiaries, which excludes the Group), pursuant to which, (I) the Group will supply (i) sewage treatment and environmental protection construction engineering related construction materials and equipment, including but not limited to facilities and equipment in relation to sewage treatment plants, water plants and comprehensive environmental management, as well as waste gas treatment equipment and other environmental protection-related products (the “**Group’s Products**”); and (ii) (a) sewage and reclaimed water treatment related engineering services, including but not limited to provision of operation and maintenance services for sewage pipes and related equipment of sewage treatment plants, provision of construction, repair and equipment installation services for sewage treatment plants, provision of engineering services for zero direct sewage discharge area, pipelines transformation, household connection project and in-depth investigation services, as well as construction, maintenance, management, commissioning and trial operation of sewage upgrading and renovation projects; and (b) environmental protection related engineering services, including but not limited to solid waste treatment, garbage disposal, comprehensive land improvement, ecology and soil restoration and governance, environmental protection engineering design and consultation, environmental protection technology development and technical consulting services, construction engineering, mechanical and electrical installation engineering,



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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municipal engineering, design and construction of landscaping and greening projects, design, construction and operation of sanitation integration projects, design, construction and operation of comprehensive environmental management related projects, environmental protection equipment sales and installation services, comprehensive management of water environment, water and soil conservation monitoring, construction and facility acceptance, as well as consulting services for water and soil conservation facilities ((a) and (b) collectively, the “**Group’s Services**”), to Zhejiang Construction and its subsidiaries, which exclude the Group (the “**Zhejiang Construction Group**”); and (II) the Zhejiang Construction Group will supply (i) (a) office supplies, daily necessities and equipment; and (b) general construction systems and equipment, including but not limited to denitrification filter process package, ultrafiltration membrane process package, magnetic coagulation process package, sporadic process package, fenton process package, deodorisation system process package, sludge dewatering system process package, templates, square wood, steel and interior and exterior wall coatings, municipal engineering ancillary materials and landscaping species, and the related ancillary services ((a) and (b) collectively, the “**ZC’s Products**”); and (ii) (a) office lease services; (b) property management and public administration services as well as human resource management services; (c) canteen catering services; and (d) operation and maintenance management and consulting services for sewage treatment plants ((a) to (d) collectively, the “**ZC’s Services**”) to the Group, for a term commencing from the Effective Date and ending on 31 December 2025.

As Zhejiang Construction is a controlling shareholder of the Company, Zhejiang Construction is deemed to be a connected person of the Company and the entering into of the Framework Agreement by the Company and Zhejiang Construction constitutes a continuing connected transaction under Chapter 14A of the Listing Rules.

Given the highest applicable percentage ratio pursuant to the Listing Rules in respect of the Proposed Annual Caps exceeds 5%, the transactions contemplated under the Framework Agreement constitute a non-exempt continuing connected transaction (the “**Non-exempt Continuing Connected Transaction**”) and is subject to the approval of the Independent Shareholders according to Chapter 14A of the Listing Rules.

In this respect, the Independent Board Committee was established by the Board to advise the Independent Shareholders on whether (i) the terms of the Non-exempt Continuing Connected Transaction are fair and reasonable and on normal commercial terms or better; (ii) the Non-exempt Continuing Connected Transaction is conducted in the ordinary and usual course of business of the Group; (iii) the Non-exempt Continuing Connected Transaction is conducted in the interests of the Group and the Shareholders as a whole; (iv) the proposed annual caps set under the Non-exempt Continuing Connected Transaction (i.e. for the provision of the Group’s Products and Group’s Services by the Group to the Zhejiang Construction Group, the “**Sales Annual Caps**”, and for the procurement of the ZC’s Products and ZC’s Services by the Group from the Zhejiang Construction Group, the “**Purchase Annual Caps**” (collectively, the “**Proposed Annual Caps**”)) are fair and reasonable and in the interests of the Group and the Shareholders as a whole; and (v) the Independent Shareholders should vote in favour of the Non-exempt Continuing Connected Transaction and the Proposed Annual Caps.

Details of the Non-exempt Continuing Connected Transaction and the Proposed Annual Caps are set out in the letter from the Board (the “**Board Letter**”) contained in the circular of the Company dated 18 September 2023 (the “**Circular**”), of which this letter forms part.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Capitalised terms used in this letter have the same meanings as those defined in the Circular unless the context otherwise requires.

### **OUR INDEPENDENCE**

As at the Latest Practicable Date, we were independent from the Company and none of circumstances set out in Rule 13.84 of the Listing Rules existed that could reasonably be regarded as a hindrance to our independence to act as the independent financial adviser in respect of the Non-exempt Continuing Connected Transaction and the Proposed Annual Caps.

Prior to our engagement as the independent financial adviser in respect of the Non-exempt Continuing Connected Transaction, we were appointed by the Company, in the preceding two years as at the date of this letter, as the independent financial adviser in respect of a connected transaction as set out in the circular of the Company to the Shareholders dated 31 March 2023. Given (i) our independent role in the aforementioned engagement; and (ii) our fees for the aforementioned engagement represented an insignificant percentage of our revenue, we consider that the aforementioned engagement would not affect our independence to form our opinion in respect of the Non-exempt Continuing Connected Transaction and the Proposed Annual Caps.

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendation in respect of the Non-exempt Continuing Connected Transaction, we have considered and reviewed, among other things, (i) the Framework Agreement; and (ii) the other information as set out in the Circular.

We have also relied on all relevant documents, information, opinions and representation provided or made by the Directors and the representatives of the Group (including but not limited to those contained or referred to in this Circular). The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed by them in the Circular have been arrived at after due and careful consideration and there are no other material facts not contained in the Circular, the omission of which would make any such statement made by them that contained in the Circular misleading in all material respects. We have no reason to doubt the truth, accuracy and completeness of the documents, information, opinions and representation provided or made by the Directors and the representatives of the Group to us.

We consider that we have reviewed 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 due diligence on the documents, information, opinions and representation provided or made by the Directors and the representatives of the Group to us, nor have we conducted any form of independent due diligence on the business, affairs, operations, financial position or future prospect of the Company and Zhejiang Construction and their respective subsidiaries and associates.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS CONSIDERED

In arriving at our recommendation in respect to the Non-exempt Continuing Connected Transaction and the Proposed Annual Caps, we have taken into consideration the following principal factors:

#### I. Background of the parties involved

##### *The Company*

As stated in the Board Letter, as at the date of this Circular, the Group is principally engaged in (i) contractor services for building construction works and repair, maintenance, alteration and addition works projects across public and private sectors in Hong Kong, Malaysia and the United Kingdom; and (ii) construction, rehabilitation and operation of sewage and reclaimed water treatment plants as well as water distribution plants and other environmental related facilities and infrastructure in the PRC (the “**Water & Environmental Protection Business**”).

##### *Zhejiang Construction*

As stated in the Board Letter, as at the date of this Circular, the Zhejiang Construction Group is principally engaged in building construction business, engineering related services and investment in infrastructure projects.

#### II. Reasons for conducting the Non-exempt Continuing Connected Transaction

As stated in the Board Letter, the principal reasons for and benefit for the Group of entering into the Framework Agreement, in a nutshell, include (i) better regulation and streamlining the terms of the continuing connected transactions between the Group and the Zhejiang Construction Group in the future; (ii) ensuring stable revenue stream of the Water & Environmental Protection Business; and (iii) ensuring stable supply of the ZC’s Products and the ZC’s Services going forward.

In assessing the reasonableness and benefits for the Group of entering into the Framework Agreement, we have considered the following factors:

- (a) after the completion of the Acquisition, the Group’s business has been expanded to the Water & Environmental Protection Business and the Framework Agreement will be governing the sales and procurement of products and services of the Group in relation to the Water & Environmental Protection Business;
- (b) as stated in the Board Letter, by leveraging on the listing status in the Shenzhen Stock Exchange and state-owned background of the Zhejiang Construction Group, it has been and will be having competitive advantages in being awarded the construction contracts in relation to sewage treatment plants or other environmental improvement and protection related infrastructure of which the Zhejiang Construction Group might subcontract certain works under such construction contracts to Zhejiang Construction Investment Environment

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Engineering Company Limited\* (浙江建投環保工程有限公司) (“**Environment Engineering Company**”) and its subsidiaries (the “**Environment Engineering Group**”) under the same terms and conditions as compared to those offered by the Independent Third Parties, and hence we consider it is financially beneficial for the Group to enter into the Framework Agreement to ensure such revenue source when opportunities arose;

- (c) as stated in the Board Letter, the Zhejiang Construction Group has been supplying the ZC’s Products and the ZC’s Services prior to the Acquisition and hence we consider the entering into the Framework Agreement is able to continue to ensure stable supply of such products and services to the Group when needed;
- (d) the Framework Agreement does not restrict the Group to procure the ZC’s Products and the ZC’s Services from or sell the Group’s Products and the Group’s Services to other independent third parties which might offer more competitive terms than the Zhejiang Construction Group and hence the execution of the Framework Agreement only offers an alternative procurement and sales option to the Group; and
- (e) given that the Framework Agreement sets out a framework of terms on which the Group may enter into definitive agreement(s) with the Zhejiang Construction Group, we concur with the Board’s view that the entering into of the Framework Agreement would, should appropriate opportunities arise, streamline the whole process of sales and purchase between the Group and the Zhejiang Construction Group, as well as the reporting, announcement and Independent Shareholders’ approval (if necessary) for the Group, and hence reduce its administrative costs.

Based on the foregoing, we are of the view that the Framework Agreement has been entered into in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole.

### III. Principal terms of the Framework Agreement

Please refer to the Board Letter for the details of principal terms of the Framework Agreement.

We are of the view that the pricing principles of the ZC’s Products, the ZC’s Services, the Group’s Products and the Group’s Services is the most important term of the Framework Agreement, the sequence of which is set out as follows:

- (a) the agreed price of the relevant products and/or relevant services (as the case may be) stipulated in the relevant main contract to be entered into between the Zhejiang Construction Group/the Group (as the case may be) and the relevant governmental units. The price of the main contract will be determined through open tender. In determining the tender price, the Zhejiang Construction Group/the Group (as the case may be) takes into account: (i) the government pricing standards and/or the Government-prescribed Price and/or the Government-guidance Price set out in the relevant pricing regulations and standards implemented by the Chinese government; (ii) the prevailing market prices of the relevant

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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products and/or services; (iii) the engineering drawings and bills of quantities for the relevant products and/or services issued by the relevant governmental units; (iv) the bidding price ceiling set by the relevant governmental units for certain relevant products and/or services (where applicable); and (v) the historical profit margin of the relevant products and/or services. Upon winning the bid, the Zhejiang Construction Group/the Group (as the case may be) and the relevant government units will enter into a main contract, in which the payment arrangement and the agreed price of the relevant services and/or goods will be specified. If the main contract is subcontracted by the Zhejiang Construction Group/the Group (as the case may be) to the Group/the Zhejiang Construction Group (as the case may be), the relevant contract price thereof will be determined based on the agreed price stipulated in the main contract (the “**Main Contract Price**”);

- (b) where there is no Main Contract Price, the price jointly determined by the relevant price control authorities, the industry regulators in the PRC and the relevant manufacturing enterprises involved in the particular transactions (the “**Government-prescribed Price**”) shall apply;
- (c) where there is no Government-prescribed Price, the price determined from time to time by the parties within the price range as provided under the laws, regulations, decisions or orders or in respect of particular types of products or services promulgated by the central government, provincial government or other regulatory authorities in the PRC (the “**Government-guidance Price**”) shall apply;
- (d) where there is no Government-guidance Price, the transaction price of the products and/or services shall be determined by the price under the non-connected transactions entered into between the Company and the Independent Third Parties (the “**Market Price**”). For determining whether the relevant transaction price is fair and reasonable, the Company is entitled to obtain comparable market prices from at least two Independent Third Parties while the Company shall also take into account the costs, quantities, qualities, taxation, insurance, market condition and timing arrangement in ensuring that under the same terms and conditions: (1) (in the event of supply of products or services by the Group to the Zhejiang Construction Group) the relevant terms and conditions shall be equal to or not less favourable than those available to the Independent Third Parties offered by the Group; and (2) (in the event of supply of products or services by the Zhejiang Construction Group to the Group) the relevant terms and conditions shall be equal to or not less favourable than those available to the Group offered by the Independent Third Parties);
- (e) where there is no Market Price, the transaction price to be agreed between the relevant parties in relation to the products and/or services to be provided or procured shall be equivalent to the reasonable costs incurred in supplying the same plus reasonable profit margin (the “**Contractual Price**”). Reasonable costs means the actual costs incurred in supplying the products and/or services as agreed by the relevant parties, while reasonable profit margin means the profit margin to be determined by the relevant parties in accordance with the terms of the Framework Agreement. The relevant parties shall determine whether the profit margin is fair and reasonable with reference to (to the extent available): (i) the historical average price of the previous transactions, by making reference to the historical

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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average prices of at least two similar products or services which were transacted between the Group and the Independent Third Parties within a year (the “**Historical Average Transaction Price**”); and/or (ii) the historical average price in relation to the relevant products and/or services issued by the relevant industrial associations, including reviewing industry data released by the National Bureau of Statistics in the PRC (the “**Historical Average Industry Price**”); and/or (iii) the profit margin of comparable products and/or services disclosed by other listed companies, by making reference to the published financial reports of other comparable companies (i.e. companies which are principally engaged in the provision of construction services in the PRC) for the latest financial year or the official websites of other listed companies (the “**Comparable Profit Margin**”) (if practicable).

In a situation which the reasonable profit margin cannot be ascertained through the basis as disclosed above, the reasonable profit margin will be estimated by making reference to the historical gross profit margin of the transactions between the Environment Engineering Group and the Zhejiang Construction Group in the last three financial years prior to the Acquisition (the “**Historical Gross Profit Margin**”).

As further set out in the Board Letter, (1) in respect of the Group’s Products, the Group’s Services, the ZC’s Products (excluding office supplies, daily necessities and equipment), and the operation and maintenance management and consulting services for sewage treatment plants to be provided by Zhejiang Construction Group to the Group, (a) the Main Contract Price shall apply; (b) if there is no Main Contract Price, the Government-prescribed Price shall apply; (c) if there is no Government-prescribed Price, the Government-guidance Price shall apply; (d) if there is no Government-guidance Price, the Market Price shall apply; and (e) if there is no available Market Price, the Contractual Price shall apply; and (2) in respect of the office supplies, daily necessities and equipment, office leases, property management and public administration services, human resource management and canteen catering services to be provided by Zhejiang Construction Group to the Group, (a) the Market Price shall apply; and (b) the if there is no available Market Price, the Contractual Price shall apply.

In respect to the pricing principle (a), having considered that the Main Contract Price is determined in accordance with the agreed price of the relevant products and/or relevant services (as the case may be) stipulated in the relevant main contract to be entered into between the Zhejiang Construction Group/the Group (as the case may be) and the relevant governmental units, which in turn (i) is required to follow the government pricing standards and/or the Government-prescribed Price and/or the Government-guidance Price stipulated in the relevant pricing regulations and standards implemented by the Chinese government, the engineering drawings and bills of quantities for the relevant products and/or services as stipulated in the corresponding tendering documents issued by the relevant governmental units, and where applicable, the bidding price ceiling set by the relevant governmental units for certain relevant products and/or services as stipulated in the corresponding tendering documents which are therefore considered transparent and publicly available information accessible to all parties; and (ii) is accepted by the relevant governmental units after their comparison with other tenderers of which is not discretionary determined by the Zhejiang Construction Group nor the Group in material extent, we are of the view that such pricing principle is fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In order to gain a better understanding on the government pricing standards, we have obtained and reviewed a tendering document issued by the Agriculture, Forestry and Water Conservancy Development Service Center of Longgang City\* (龍港市農林水利發展服務中心) under the Longgang City Agriculture and Rural Affairs Bureau\* (龍港市農業農村局) in respect of a construction engineering project won by the Zhejiang Construction Group and subcontracted to Environment Engineering Company during the year ended 31 December 2022 (the “**Tendering Document**”) which specifies the pricing requirements for the tender and noted from the Tendering Document that the tender price set by the tenderer (i.e. the Zhejiang Construction Group) must be determined based on, at the very least, (i) the guidance prices stipulated in the Zhejiang Jianjian [2018] No. 61 document “Notice on Issuing Zhejiang Province Construction Engineering Pricing Basis (2018 Edition)\*” (浙建建 [2018] 61號文件《關於頒發浙江省建設工程計價依據 (2018版)的通知》) and the “Notice on Pricing Regulation on Construction and Engineering Work in the Zhejiang Province (2018 Edition)\*” (《浙江省建設工程計價規則 (2018版)》) jointly promulgated by the Department of Housing and Urban-Rural Development of Zhejiang Province (浙江省住房和城鄉建設廳), Zhejiang Provincial Development and Reform Commission (浙江省發展和改革委員會) and Zhejiang Provincial Department of Finance (浙江省財政廳), as well as the Code of Valuation with Bill Quantity of Construction Works (GB50500-2013) (《建設工程工程量清單計價規範》(GB50500-2013)) jointly promulgated by the Ministry of Housing and Urban Rural Development of the PRC (中華人民共和國住房和城鄉建設部) and the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局); and (ii) the prevailing market prices.

We have discussed with the management of Environment Engineering Company and noted that the Zhejiang Construction Group also referenced to other government pricing standards, including but not limited to, the “Notice on Economic Evaluation Methods and Parameters of Construction Projects (Third Edition)\*” (《建設項目經濟評價方法與參數的通知》(第三版)), the “Code for Valuation of Construction Engineering Bill of Quantities (GB50500-2013)\*” (《建設工程工程量清單計價規範》(GB50500-2013)), the “Pricing Measures for Construction Projects in Zhejiang Province (2004) (Order No. 173 of the People’s Government of Zhejiang Province)\*” (《浙江省建築工程計價辦法 (2004)》(浙江省人民政府令第173號)), the “Zhejiang Province Comprehensive Quotas for Construction Projects (2010 Edition)\*” (《浙江省建築工程綜合定額 (2010版)》), the “Zhejiang Province Budgetary Quotas for Municipal Engineering Projects (2010 Edition)\*” (《浙江省市政工程預算定額 (2010版)》), the “Zhejiang Province Budgetary Quotas for Landscape and Greening Projects and Ancient Architecture Projects (2003 Edition)\*” (《浙江省園林綠化及仿古建築工程預算定額 (2003版)》) and the “Guidelines for the Operation and Maintenance Costs of Rural Domestic Sewage Treatment Facilities in Zhejiang Province (Trial)\*” (《浙江省農村生活污水處理設施運行維護費用指導價格指南(試行)》).

In particular to how the Zhejiang Construction Group decides the prevailing market prices of the relevant products and/or services in determining the tender price, the management of Environment Engineering Company advised us that the Zhejiang Construction Group will reference to the recent transaction price of the relevant products and/or services under the non-connected transactions entered into between the Zhejiang Construction Group and the independent third parties.

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In respect to the pricing principles (b) and (c), having considered that the Government-prescribed Price and the Government-guidance Price are (i) the benchmark prices solely established by the relevant governmental units that all industry players must adhere to; (ii) transparent and publicly available information accessible to all parties; and (iii) determined independently from the Zhejiang Construction Group and the Group, we are of the view that such pricing principles are fair and reasonable.

In respect to the pricing principle (d), having considered that the Market Price is determined (i) with reference to the transaction prices of the relevant products and/or services under the non-connected transactions entered into between the Group and the Independent Third Parties; (ii) with reference to the quotations for the relevant products and/or services provided by at least two Independent Third Parties to the Group; and (iii) independently from the Zhejiang Construction Group and the Group, we are of the view that such pricing principle is fair and reasonable.

In respect to the pricing principle (e), having considered that the reasonable profit margin is determined with reference to (i) the Historical Average Transaction Price, which is derived from the historical average prices of at least two similar products or services transacted between the Group and the Independent Third Parties within a year, is (1) considered recent, reasonable and representative of the prevailing market price of the relevant products and/or services; and (2) determined independently from the Zhejiang Construction Group and the Group; and/or (ii) the Historical Average Industry Price, which is determined based on the latest available industry data released by the National Bureau of Statistics in the PRC, is (1) considered recent, reasonable and indicative of the prevailing industry price of the relevant products and/or services; (2) publicly available to all parties; and (3) determined independently from the Zhejiang Construction Group and the Group; and/or (iii) the Comparable Profit Margin, which is the profit margin of comparable products and services disclosed by other comparable listed companies, is (1) accessible by the public; and (2) determined independently from the Zhejiang Construction Group and the Group; and/or (iv) the Historical Gross Profit Margin, which is determined based on the historical gross profit margin of the transactions between the Environment Engineering Group and the Zhejiang Construction Group in the last three financial years, is considered feasible, well-based, auditable and acceptable and shall be applied only when the recent pricing information from the Independent Third Parties is inaccessible to the Zhejiang Construction Group and the Group, we are of the view that such pricing principle is fair and reasonable.

Moreover, we are of the view that the sequence of determining the applicable pricing term is fair and reasonable since priority is given to the pricing terms which are determined independently from the Zhejiang Construction Group and the Group i.e. pricing principles (a) to (d) above, over the pricing term which is jointly determined by the Zhejiang Construction Group and the Group i.e. pricing principle (e) above.

Having considered the above, we are of the view that the terms of the Framework Agreement are fair and reasonable and on normal commercial terms or better.



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### IV. The Proposed Annual Caps

The following table sets forth the Proposed Annual Caps for the transactions contemplated under the Framework Agreement for each of the three years ending 31 December 2025:

	For the year ending 31 December		
	2023	2024	2025
	(Note)		
	HK\$'000	HK\$'000	HK\$'000
The Sales Annual Caps	55,000	110,000	110,000
The Purchase Annual Caps	52,500	105,000	105,000

*Note:* The Proposed Annual Cap for the year ending 31 December 2023 is for a period commencing from the Effective Date and ending on 31 December 2023.

#### *The Sales Annual Caps*

As set out in the Board Letter, the Sales Annual Caps for the period commencing from the Effective Date to 31 December 2023 and the two years ending 31 December 2025 are determined with reference to, among other things:

- (i) the estimated indicative contract sum set by Zhejiang Construction to the Environment Engineering Group (the “**Indicative Contract Sum**”) for the three years ending 31 December 2025 with reference to the Indicative Contract Sum of RMB 1,000 million for the year ending 31 December 2023 (the “**2023 Indicative Contract Sum**”);
- (ii) the estimated completion rate of the Indicative Contract Sum by Environment Engineering Group with reference to the average of the relevant historical completion rate of approximately 95% for the three years ended 31 December 2022 (the “**Historical Average Completion Rate**”);
- (iii) the estimated portion of contracts to be entered into between the Environment Engineering Group with the Zhejiang Construction Group out of the total estimated contracts to be entered (i.e. the estimated portion of connected transactions) with reference to the average of the relevant historical portion of approximately 15% for the three years ended 31 December 2022 (i.e. the historical average portion of connected transactions) (the “**Historical Average Connected Transaction Portion**”);

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- (iv) the estimated duration of contracts to be entered by the Environment Engineering Group with the Zhejiang Construction Group with reference to the relevant historical duration of generally less than one year for the three years ended 31 December 2022 (the “**Historical Average Connected Contract Duration**”);
- (v) the expected approximate timing of the approval by the Independent Shareholders on the Framework Agreement, which is estimated to be the second half of 2023; and
- (vi) the estimated conversion of RMB into Hong Kong dollars with reference to the exchange rate of HK\$1 to RMB0.9.

Please refer to the Board Letter for the details of the Board’s consideration in determining the Sales Annual Caps.

We have obtained from the Group the calculation of the expected sales to be generated by the Environment Engineering Group from the Zhejiang Construction Group under the Framework Agreement for the period commencing from the Effective Date to 31 December 2023 and the two years ending 31 December 2025 (the “**Expected Connected Sales**”), which is the principal parameter in determining the Sales Annual Caps, of which is set out below:

	2023	2024	2025
The 2023 Indicative Contract Sum ( <i>RMB million</i> ) (a)	1,000	1,000	1,000
Historical Average Completion Rate (b)	95%	95%	95%
Expected annual contract sum to be executed by Environment Engineering Company ( <i>RMB million</i> ) (c) = (a) x (b)	950	950	950
Historical Average Connected Transaction Portion (d)	15%	15%	15%
Expected annual contract sum to be executed by Environment Engineering Company with Zhejiang Construction and its subsidiaries ( <i>RMB million</i> ) (e) = (c) x (d)	143	143	143
Historical Average Connected Contract Duration (f)	< 1 year	< 1 year	< 1 year
Expected annual sales to be generated by Environment Engineering Company from the Zhejiang Construction Group ( <i>RMB million</i> ) (g) = (e) x 1	143	143	143
Timing factor for 2023	0.5	N/A	N/A
Expected sales to be generated by Environment Engineering Company from the Zhejiang Construction Group under the Framework Agreement ( <i>RMB million</i> )	72	143	143
Expected Connected Sales ( <i>HK\$ million</i> )	80	159	159
The Sales Annual Caps ( <i>HK\$ million</i> )	55	110	110

*Note:* Certain amounts and percentage figures shown in the above table have been subject to rounding adjustments and the amounts may have been rounded up or down.

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In assessing the fairness and reasonableness of the 2023 Indicative Contract Sum of RMB1,000 million, we have obtained and reviewed (i) the underlying document stipulating the 2023 Indicative Contract Sum; and (ii) the project list provided by the Environment Engineering Group which stipulated, among others, the details, contract sums and progresses of the projects involving the Group's Products and the Group's Services to be/might be entered into by the Environment Engineering Group during the third and fourth quarters of the year ending 31 December 2023 (the "**List of Proposed Projects**"). We noted from the List of Proposed Projects that (i) 3 projects with an aggregate expected contract sum of approximately RMB512 million, which accounted for over 50% of the 2023 Indicative Contract Sum, have been ascertained by the relevant parties and are scheduled for execution during the year ending 31 December 2023; and (ii) 7 projects with an aggregate expected contract sum of approximately RMB663 million, which accounted for over 65% of the 2023 Indicative Contract Sum, are currently under negotiation and are highly probable to be executed during the year ending 31 December 2023.

To further assess the fairness and reasonableness of the 2023 Indicative Contract Sum of RMB1,000 million, we have discussed with the management of Environment Engineering Company and understand that the 2023 Indicative Contract Sum was primarily determined by Zhejiang Construction based on the prevailing market conditions and outlook for the environmental protection industry in the PRC.

According to the "Report on the Development Status of China's Environmental Protection Industry (2021)" (《中國環保產業發展狀況報告(2021)》) jointly issued by the Technology and Finance Department of the Ministry of Ecology and Environment of the PRC and the China Environmental Protection Industry Association (中國環境保護產業協會) on 19 January 2022, China's environmental protection industry is expected to generate operating revenue of over RMB3,000 billion by 2025. Pursuant to the "2021 Statistical Yearbook of Urban and Rural Development" (《2021年城鄉建設統計年鑒》) published by the Ministry of Housing and Urban-Rural Development of the PRC on 12 October 2022, the sewage treatment rate of established towns in China was only 62% in 2021, creating further potential for growth in the sewage treatment market in rural areas. The Chinese government's policy of promoting industrial wastewater recycling is also driving growth in the market scale for industrial sewage treatment. Furthermore, the "14th Five-Year Plan for Environmental Protection of Urban Black and Odour Water Treatment" (《“十四五”城市黑臭水體整治環境保護行動方案》) jointly established by the Ministry of Ecology and Environment and the Ministry of Housing and Urban-Rural Development of the PRC in March 2022 outlines the Chinese government's goal to achieve long-term control and clearance of black and odorous water in urban built-up areas at or above the prefecture level and to eliminate black and odorous water in county-level cities by 2025, which will promote sustainable growth in the county sewage pipeline network, sewage treatment plant upgrading and transformation as well as river basin governance market, and provide definite market opportunities for the urban sewage treatment industry during the 14th Five-Year period. The "Action Plan for Upgrading and Transforming Urban Sewage Pipeline Networks in Zhejiang Province (2023-2027) (Draft for Comments)\*" (《浙江省城鎮污水管網提升改造行動方案(2023-2027年)(徵求意見稿)》) published by the Zhejiang Provincial Water Conservancy Administration\* (浙江省治水辦) on 14 July 2023 also indicates that the Chinese government anticipates to complete the upgrading and renovation of the problematic sewage pipeline network within 70% of the urban built-up areas by the end of 2025. Moreover, according to the "2023 Ecological Environment Protection Work

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Plan of the Zhejiang Provincial Department of Housing and Urban-Rural Development” (《浙江省住房和城乡建设廳2023年度生態環境保護工作計劃》) released on 27 March 2023, the Chinese government aims to increase Zhejiang Province’s sewage treatment capacity by 350,000 tons per day and plans to construct and renovate 600 kilometers of municipal sewage pipelines in 2023. Additionally, the coverage rate of rural domestic sewage treatment in administrative villages is expected to reach 88% by the same year, with the construction of 3,000 new and renovated treatment facilities and 40,000 standardised operation and maintenance facilities.

Having considered (i) our foregoing work done on the 2023 Indicative Contract Sum; (ii) the aforementioned positive prospects of the environmental protection industry in the PRC, which may contribute to an increase in the bidding opportunities and quantities of contracts from the relevant governmental units; and (iii) Zhejiang Construction’s increasing effort to participate in more project tendering from the governmental units, which may lead to an increase in subcontracting work to be granted to the Environment Engineering Group as disclosed in the Board Letter, we are of the view that the Indicative Contract Sum of RMB1,000 million for each of the three years ending 31 December 2025, being a conservative estimate that does not take into account any possible increments over the same period, is justifiable.

In assessing the fairness and reasonableness of the Historical Average Completion Rate, the Historical Average Connected Transaction Portion and the Historical Average Connected Contract Duration, we have obtained and reviewed (i) the underlying documents stipulating the indicative contract sums set by Zhejiang Construction to the Environment Engineering Group for each of the three years ended 31 December 2022 (the “**2020-2022 Indicative Contract Sums**”); and (ii) the project lists of the Environment Engineering Group that stipulated, among others, the contract sums and contract duration of the projects that involved the Group’s Products and the Group’s Services entered by the Environment Engineering Group with the Zhejiang Construction Group and the Independent Third Parties for each of the three years ended 31 December 2022 (the “**Project Lists**”). The Project Lists consist of 10 projects entered into between the Environment Engineering Group and the Zhejiang Construction Group and 65 projects entered into between the Environment Engineering Group and the Independent Third Parties. Based on our re-computation from the relevant data stipulated in the 2020-2022 Indicative Contract Sums and the Project Lists, the Historical Average Completion Rate, the Historical Average Connected Transaction Portion and the Historical Average Connected Contract Duration are accurate.

To validate the reliability of the Historical Average Completion Rate (i.e. the numerator) and the Historical Average Connected Transaction Portion (i.e. the denominator), we have obtained and reviewed 5 agreements, which represent the largest 60% of agreements in terms of contract sum, entered into between the Environment Engineering Group and the Independent Third Parties as stipulated in the Project Lists (the “**Sample Third Party Agreements**”), and noted that the contract sums stipulated in the Sample Third Party Agreements are consistent with those set out in the Project Lists.

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To verify the details of the connected transactions stipulated in the Project Lists, and hence the Historical Average Connected Transaction Portion (i.e. the numerator) and the Historical Average Connected Contract Duration, we have obtained and reviewed all 10 agreements entered into between the Environment Engineering Group and the Zhejiang Construction Group stipulated in the Project Lists (the “**Sample Connected Agreements**”), and noted that the details stipulated in the Sample Connected Agreements are consistent with those set out in the Project Lists.

Having considered (i) the foregoing work done; (ii) the justifiability of the 2023 Indicative Contract Sum, and thus the Indicative Contract Sums for each of the two years ending 31 December 2025, as previously mentioned; (iii) the adoption of the 2023 Indicative Contract Sum, the Historical Average Completion Rate, the Historical Average Connected Transaction Portion and the Historical Average Connected Contract Duration for the estimation of the Expected Connected Sales and hence the Sales Annual Caps are justifiable given (a) the high and stable correlation between the 2020-2022 Indicative Contract Sums and the historical contract sums executed by the Environment Engineering Group during the corresponding years (FY2020: 95%, FY2021: 99% and FY2022: 92%); (b) they are derived from the actual historical data during a recent and reasonable period of time which, given the available information on hand, provides a relatively reliable foundation for the estimation of the Expected Connected Sales and hence the Sales Annual Caps (as opposed to the adoption of data which was discretionarily set by the Group); and (c) there are no circumstance indicating that the Historical Average Completion Rate, the Historical Average Connected Transaction Portion and the Historical Average Connected Contract Duration will not be able to maintain for the foreseeable period of time; (iii) the fact that the Sales Annual Caps were set below the Expected Connected Sales is justifiable given (a) the Expected Connected Sales were merely an estimation based on historical parameters without taking into account any potential future uncertainties; (b) it is considered to be conservative and prudent; and (c) the Company could, where necessary, revise the Sales Annual Caps by re-complying with the relevant requirements under the Listing Rules if the Sales Annual Caps are deemed insufficient in the future; and (iv) the relatively conservative estimation on the expected Indicative Contract Sum for the two years ending 31 December 2025, which is assumed to be remained at the same level to the 2023 Indicative Contract Sum as opposed to the fact that (a) the Indicative Contract Sum had increased by over 20% for the year ended 31 December 2022 as compared to the prior year according to the relevant underlying documents provided by the Group; and (b) the positive outlook of the environmental protection industry in the PRC, we are of the view that the Sales Annual Caps are determined based on reasonable estimation and are fair and reasonable so far as the Independent Shareholders are concerned.

### *The Purchase Annual Caps*

As set out in the Board Letter, the Purchase Annual Caps for the period commencing from the Effective Date to 31 December 2023 and the two years ending 31 December 2025 are determined based on:

- (i) the Sales Annual Caps for the period commencing from the Effective Date to 31 December 2023 and the two years ending 31 December 2025; and

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- (ii) the estimated gross profit margin of the Environment Engineering Group for the contracts to be entered with the Zhejiang Construction Group for the three years ending 31 December 2025 with reference to the estimated historical average of the relevant gross profit margins of approximately 5% for the three years ended 31 December 2022 (the “**Estimated Historical Average GP%**”).

Please refer to the Board Letter for the details of the Board’s consideration in determining the Purchase Annual Caps.

As stated in the Board Letter, the projected increase in the subcontracting work to be granted from the Zhejiang Construction Group to the Environment Engineering Group, which is expected to constitute a relatively larger portion out of the total estimated revenue of the Environment Engineering Group after the Acquisition compared to the sales to be generated from the Independent Third Parties, shall directly lead to an increase in the procurement of the ZC’s Products and the ZC’s Services from the Zhejiang Construction Group, in particular the (i) operation and maintenance management and consulting services for sewage treatment plants (part of the ZC’s Services); and (ii) general construction systems and equipment (part of the ZC’s Products), given that both of which are expected to be purchased by the Environment Engineering Group principally for generating the Group’s Products and the Group’s Services. Also, in view of the relatively greater familiarity of the Zhejiang Construction Group with the (i) operation and maintenance management and consulting services for sewage treatment plants; and (ii) general construction systems and equipment than the other types of the ZC’s Products and the ZC’s Services (i.e. office supplies, daily necessities and equipment, office lease services, property management and public administration services as well as human resource management services and canteen catering services), both of which are expected to constitute a major portion of the Purchase Annual Caps for the three years ending 31 December 2025. Furthermore, Zhejiang Construction undertakes to the Company that it will use its best endeavour to offer an equivalent or no less favourable terms and conditions as compared to those offered by the Independent Third Parties for the Group’s procurement of the ZC’s Products and the ZC’s Services for the three years ending 31 December 2025 (the “**Undertaking**”), which is expected to lead to an increase in the relevant purchases from Zhejiang Construction with respect to the corresponding increasing subcontracting work to be granted from the Zhejiang Construction Group.

In view of the above, we have obtained and reviewed the deed of undertaking executed by Zhejiang Construction in favour of the Company in respect of the Framework Agreement (the “**Deed of Undertaking**”) and noted that the aforementioned Undertaking is stipulated in the Deed of Undertaking. It also states that Zhejiang Construction undertakes to exert every effort to ensure that the ZC’s Products and the ZC’s Services meet the requirements and standards set by the Group. Given that the terms, conditions and standards of the ZC’s Products and the ZC’s Services are equivalent or no less favourable than those offered by the Independent Third Parties, we believe that the increase in subcontracting work to be granted from the Zhejiang Construction Group will correspondingly drive an increase in the procurement of the relevant ZC’s Products and ZC’s Services from the Zhejiang Construction Group.

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In assessing the familiarity of the Zhejiang Construction Group with the (i) operation and maintenance management and consulting services for sewage treatment plants; and (ii) general construction systems and equipment, we have obtained and reviewed the interim report of Zhejiang Construction for the six months ended 30 June 2023 and the annual report of Zhejiang Construction for the year ended 31 December 2022 and noted that the Zhejiang Construction Group is principally engaged in construction business, provision of engineering related services as well as production and sales of construction systems and equipment, and such businesses accounted for over 95% of the total revenue of the Zhejiang Construction Group during the corresponding periods. As such, we are of the view that the Zhejiang Construction Group is more familiar with the (i) operation and maintenance management and consulting services for sewage treatment plants; and (ii) general construction systems and equipment as compared to other types of the ZC's Products and the ZC's Services (i.e. office supplies, daily necessities and equipment, office lease services, property management and public administration services as well as human resource management services and canteen catering services). As advised by the representative of the Company, the Group may procure other types of the ZC's Products and the ZC's Services (i.e. office supplies, daily necessities and equipment, office lease services, property management and public administration services as well as human resource management services and canteen catering services) from the Independent Third Parties which are specialised in the relevant industries and can offer equivalent or more favourable terms than the Zhejiang Construction Group. In light of the foregoing, the Group intends to procure a relatively larger portion of the (i) operation and maintenance management and consulting services for sewage treatment plants; and (ii) general construction systems and equipment from the Zhejiang Construction Group during the three years ending 31 December 2025, and hence such products and services are expected to contribute a major portion of the Purchase Annual Caps for the corresponding period.

In assessing the fairness and reasonableness of the above basis of determination of the Purchase Annual Caps by the Board, we have reviewed the calculation provided by the Group, which is set out below:

	2023	2024	2025
The Sales Annual Caps ( <i>HK\$ million</i> ) (a)	55	110	110
Estimated Historical Average GP% (b)	5%	5%	5%
The Purchase Annual Caps ( <i>HK\$ million</i> ) (c) = (a) x (1 – (b))	52.5	105	105

*Note:* Certain amounts and percentage figures shown in the above table have been subject to rounding adjustments and the amounts may have been rounded up or down.

In assessing the fairness and reasonableness of determining the Purchase Annual Caps based on the Sales Annual Caps derived from the Expected Connected Sales, we have taken into account the following factors: (i) it is relatively more ambiguous to estimate the total sales of the Group, which includes sales from Independent Third Parties, as compared to sales from the Zhejiang Construction Group since the Group is typically uncertain about the bidding results for subcontracting work from Independent Third Parties; (ii) pursuant to the Deed of Undertaking, as Zhejiang Construction undertakes to use its best endeavour to provide terms and conditions that are no less favourable than those offered by Independent Third Parties to the Group, it is comparatively more objective and provides a basis for support when using the Expected Connected

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Sales and hence the Sales Annual Caps to derive the Purchase Annual Caps; (iii) the expected connected purchases are attributable to the occurrence of the Expected Connected Sales following the Acquisition, thus the correlation between the Purchase Annual Caps and the Expected Connected Sales is relatively stronger compared to sales from Independent Third Parties; (iv) it is considered to be conservative and prudent to estimate the Purchase Annual Caps based on the Expected Connected Sales without taking into consideration the sales from Independent Third Parties; and (v) the Company could, where necessary, revise the Purchase Annual Caps by re-complying with the relevant requirements under the Listing Rules if the Purchase Annual Caps are deemed insufficient in the future. In light of the foregoing, we are of the view that estimating the Purchase Annual Caps using the Sales Annual Caps is justifiable.

In assessing the fairness and reasonableness of the Estimated Historical Average GP%, we have (i) obtained and reviewed the basis of estimation in estimating the gross profit margins of the projects entered into by the Environment Engineering Group and the Zhejiang Construction Group as stipulated in the Project Lists (the “**GP% Estimation Basis**”); (ii) discussed with the management of Environment Engineering Company and understand that Environment Engineering Company subcontracted the relevant works of the projects and received a certain level of management fee and therefore the subcontracting cost was and is expected to be the largest component of its direct operating costs; and (iii) obtained and reviewed 2 of the corresponding subcontracting agreements, which represent the largest 80% of the Sample Connected Agreements in terms of contract sum, and noted that the management fees stipulated in such subcontracting agreements were marginally higher than the estimated gross profit margins of the relevant projects as stipulated in the GP% Estimation Basis. We subsequently discussed with the management of Environment Engineering Company and understood that such slight variance represented the direct costs incurred by the Environment Engineering Group in relation to such projects, such as direct labour costs.

Having considered (i) the foregoing work done; (ii) the possible increase in the procurement of the ZC’s Products and the ZC’s Services (in particular the (a) operation and maintenance management and consulting services for sewage treatment plants (part of the ZC’s Services); and (b) general construction systems and equipment (part of the ZC’s Products)) from the Zhejiang Construction Group stemmed from the anticipated increase in the subcontracting work to be granted from the Zhejiang Construction Group; (iii) the undertakings given by Zhejiang Construction as stipulated in the Deed of Undertaking which is expected to generally lead to an increase in the relevant purchases from the Zhejiang Construction Group; (iv) the positive correlation between the Group’s Sales (i.e. the subcontracting work granted from the Zhejiang Construction Group) and the Group’s Purchases (i.e. part of the ZC’s Products and the ZC’s Services which are utilised in the provision of the Group’s Products and the Group’s Services), and hence the Sales Annual Caps and the Purchase Annual Caps; (v) the justification for estimating the Purchase Annual Caps with reference to the Sales Annual Caps as previously mentioned; (vi) the analysis regarding the basis of determination of the Sales Annual Caps as illustrated in the section above; (vii) the positive outlook of the environmental protection industry in the PRC as illustrated in the section above; and (viii) it is reasonable to estimate the cost (the close proximity of purchase amount) by referring to the revenue and gross profit margin, we are of the view that the Purchase Annual Caps, which are derived from the Sales Annual Caps, are determined based on reasonable estimation and are fair and reasonable so far as the Independent Shareholders are concerned.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### V. Internal control measures

As set out in the Board Letter, the Company has designated relevant personnel to perform internal review and control over the continuing connected transactions. Except for (i) the subcontracting contracts to be granted to the Group by the Zhejiang Construction Group which shall predominantly follow the pricing terms and conditions of the relevant main contracts to be entered into between Zhejiang Construction and the relevant governmental units (i.e. pricing principle (a) under the Framework Agreement), of which the relevant main contracts shall generally be based on the pricing terms and conditions of the public tendering documents to be stipulated by the relevant governmental units; and (ii) following an objective pricing mechanism with reference to the Government-prescribed Price (where there is no main contract) and the Government-guidance Price (where there is no Government-prescribed Price) (i.e. pricing principles (b) and (c) under the Framework Agreement respectively), the Company and the Environment Engineering Company have implemented certain internal control measures, which include, reviewing individual contracts signed between the Company and connected persons, reviewing the performance of procedures prior to signing of individual contracts as well as the fulfilment of transactions thereunder, regularly inspecting the specific terms of the Company's transactions with connected persons and comparing it with the terms of the comparable transactions of the Company entered into with Independent Third Parties, to ensure that the pricing and other contractual terms for the Group's continuing connected transactions under individual contracts under the Framework Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and that the continuing connected transactions are conducted in accordance with the individual contracts and in compliance with the applicable laws and regulations and the general pricing principles under the Framework Agreement.

In particularly respect to the pricing principle (d) under the Framework Agreement, to further understand and assess the effectiveness of internal control measures imposed by the Group in ensuring the terms offered by the Zhejiang Construction Group are not less favourable than those offered by other Independent Third Parties in case the Group chose the Zhejiang Construction Group to be the supplier or the customer, we confirmed with the Company that (i) the relevant subsidiaries of the Group will obtain and compare at least three quotations from different parties (including the Zhejiang Construction Group). The relevant screening process, rationale and comparison results for these parties will be documented and submitted to the management of the relevant subsidiaries of the Group for review and final approval before entering into individual agreements with the successful parties; and (ii) the finance department, business development department and management of the Group will act as the gatekeepers to ensure that the pricing terms under each of the individual agreements are not less favourable than those offered by other Independent Third Parties to the Group, and the margin ratios are on normal commercial terms and are fair and reasonable.

Having considered the above, we are of the view that the internal control with respect to the Framework Agreement is properly in place to ensure that the pricing terms are determined based on normal commercial terms and on a fair and reasonable basis.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### CONTINUING CONNECTED TRANSACTIONS REQUIREMENTS UNDER THE LISTING RULES

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the transactions contemplated under the Framework Agreement are subject to the following annual review requirements:

- (a) each year the independent non-executive Directors must review the transactions contemplated under the Framework Agreement and confirm in the annual report whether such transactions have been entered into:
  - (i) in the ordinary and usual course of business of the Group;
  - (ii) on normal commercial terms or better; and
  - (iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) The Company must engage its auditors to report on the transactions contemplated under the Framework Agreement every year and the auditors must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that such transactions:
  - (i) have not been approved by the Board;
  - (ii) were not carried out, in all material respects, in accordance with the pricing policies of the Group (if applicable);
  - (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
  - (iv) have exceeded the Sales Annual Caps and the Purchase Annual Caps;
- (c) the Company must provide a copy of the auditors' letter to the Stock Exchange at least 10 business days before the bulk printing of its annual report;
- (d) the Company must allow, and ensure that the counterparties to the transactions contemplated under the Framework Agreement allow, the auditors sufficient access to their records for the purpose of the reporting on the transactions; and
- (e) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors cannot confirm the matters as required.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As stated in the Board Letter, to ensure that the continuing connected transactions under the Framework Agreement do not exceed the Proposed Annual Caps, the relevant personnel of the Company and Environment Engineering Company shall review the continuing connected transactions on a quarterly basis. In the event that the amount of the continuing connected transactions incurred and to be incurred for a financial year is expected to reach the Proposed Annual Caps, the relevant personnel will follow up forthwith by reporting and proposing a response to the management of the Company, and in case that a revision to the Proposed Annual Caps is required, report particulars to the Board and hold a Board meeting for considering the matters thereabout to ensure compliance of the requirements under the Listing Rules.

As further stated in the Board Letter, the Company also arranges compliance training for the Directors, senior management and staff from the relevant departments of the Company and its subsidiaries from time to time, primarily focusing on the requirements of the Listing Rules.

We have also obtained and reviewed a compliance reminder letter issued by the Company to Environment Engineering Company subsequent to the Acquisition. We noted that such letter stipulates the requirements under Chapters 14 and 14A of the Listing Rules as well as the corresponding recommendations for compliance work going forward.

In light of the above annual review requirements attached to the transactions contemplated under the Framework Agreement and the relevant measures implemented by the Company, we are of the view that appropriate measures will be in place to monitor the conduct of the transactions and assist in safeguarding the interests of the Independent Shareholders.

### RECOMMENDATION

Having considered the above, we are of the view that (i) the terms of the Non-exempt Continuing Connected Transaction are fair and reasonable and on normal commercial terms or better; (ii) the Non-exempt Continuing Connected Transaction is conducted in the ordinary and usual course of business of the Group; (iii) the Non-exempt Continuing Connected Transaction is conducted in the interests of the Group and the Shareholders as a whole; (iv) the Proposed Annual Caps are fair and reasonable and in the interests of the Group and the Shareholders as a whole; and (v) the Independent Shareholders should vote in favour of the Non-exempt Continuing Connected Transaction and the Proposed Annual Caps.

Yours faithfully  
For and on behalf of  
**TC Capital International Limited**  
**Keiven Chan**  
*Managing Director*

*Note:* Mr. Keiven Chan has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under the SFO since 2018. He has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong.

\* *For identification purposes only*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material aspects and not misleading or deceptive, and there is no other matter the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Director and chief executive

As at the Latest Practicable Date, interests or short positions in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) held by the Directors and chief executive of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to Section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules are as follows:

#### *Long positions in Shares, underlying Shares debentures and Debentures*

Name of Directors	Capacity/Nature of Interest	Number of ordinary Shares/ underlying Shares (long position)	Approximate percentage of the Company’s issued share capital <sup>(1)</sup> (%)
Mr. GUAN Manyu	Beneficial owner	2,000,000	0.40
Mr. LI Kar Yin	Beneficial owner	1,000,000	0.20
Mr. CHAN Tak Yiu	Beneficial owner	100,000	0.02
Mr. YANG Haojiang	Beneficial owner	500,000	0.10

*Note:*

(1) As at the Latest Practicable Date, the number of issued Shares of the Company was 500,000,000 Shares.

Save as disclosed above, none of the Directors or chief executive of the Company and/or any of their respective close associates had registered any interests or short positions in any Shares, underlying Shares in, and debentures of, the Company or any associated corporations as at the Latest Practicable Date, as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

**(b) Substantial shareholders and other persons**

As at the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

*Long Positions in the Shares*

Name of shareholder	Capacity/Nature of interests	Number of Ordinary Shares/ underlying Shares (long position)	Approximate percentage of the Company's issued share capital <sup>(3)</sup>
Zhejiang State-owned Capital Operation Company Limited	Interest in a controlled corporation <sup>(1)</sup>	361,150,000	72.23
Zhejiang Construction Investment Group Co., Ltd. (formerly known as Dohia Group Co., Ltd)	Interest in a controlled corporation <sup>(1)</sup>	361,150,000	72.23
Zhejiang Construction Group (H.K.) Holdings Limited	Interest in a controlled corporation <sup>(1)</sup>	361,150,000	72.23
China Zhejiang Construction Group (H.K.) Limited	Interest in a controlled corporation <sup>(1)</sup>	361,150,000	72.23
CR Construction Investments Limited	Beneficial owner <sup>(1)</sup>	361,150,000	72.23
Ning Shing (Holdings) Company Limited ("Ning Shing")	Beneficial owner <sup>(2)</sup>	25,000,000	5.00

*Notes:*

- (1) As at the Latest Practicable Date, CR Construction Investments Limited directly holds 361,150,000 Shares in the Company. CR Construction Investments Limited is a wholly owned subsidiary of China Zhejiang Construction Group (H.K.) Limited, which is in turn a wholly-owned subsidiary of Zhejiang Construction Group (H.K.) Holdings Limited. Zhejiang Construction Group (H.K.) Holdings Limited is a wholly-owned subsidiary of Zhejiang Construction Investment Group Co., Ltd. (former known as Dohia Group Co., Ltd). Zhejiang State-owned Capital Operation Company Limited holds 35.90% interests in Zhejiang Construction Investment Group Co., Ltd. By virtue of the SFO, each of China Zhejiang Construction Group (H.K.) Limited, Zhejiang Construction Group (H.K.) Holdings Limited, Zhejiang Construction Investment Group Co., Ltd., and Zhejiang State-owned Capital Operation Company Limited is deemed to have an interest in the Shares held by CR Construction Investments Limited.
- (2) As at the Latest Practicable Date, Ning Shing directly holds 25,000,000 Shares of the Company. Ning Shing is a state-owned company wholly owned by the Ningbo Municipal Government established in Hong Kong in May 1995.
- (3) As at the Latest Practicable Date, the number of issued Shares of the Company was 500,000,000 Shares.

Save as disclosed above, as at the Latest Practicable Date, no person, other than the Directors or chief executive of the Company had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

### **3. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

### **4. COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors or any of their respective close associates has engaged in any business that competed or may compete either directly or indirectly, with the business of the Group and any conflict of interests which any such person had or might have with the Group.

### **5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Company were made up.

### **6. MATERIAL INTERESTS**

As at the Latest Practicable Date, none of the Directors (i) had any direct or indirect interest in any assets which had been, since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group; and (ii) was materially interested in any transaction, contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

## 7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within two years immediately preceding the Latest Practicable Date and are or may be material:

- (a) the share purchase agreement dated 31 January 2023 entered into between the Company (as purchaser) and China Zhejiang Construction Group (H.K.) Limited (as vendor) in relation to the purchase of the entire equity interest in Environment Engineering Company at a total consideration of RMB201,000,000 (equivalent to approximately HK\$228,409,000); and
- (b) the share purchase agreement dated 30 January 2022 entered into between the Company (as purchaser) and China Zhejiang Construction Group (H.K.) Limited (as vendor) in relation to the purchase of the entire issued share capital of CR Construction (U.K.) Investments Company Limited at a total consideration of HK\$9,200,000.

### Litigation

As at the Latest Practicable Date, the Group were not engaged in any litigation or arbitration proceedings of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Company or any of its subsidiaries.

## 8. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular or have given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
<b>Rainbow Capital (HK) Limited</b>	A licensed corporation to carry out Type 1 (dealing in securities and Type 6 (advising on corporate finance) of the regulated activities under the SFO
<b>TC Capital International Limited</b>	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, each of the experts named above (i) had no shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and (ii) had no direct or indirect interest in any assets which had been, since 31 December 2022 (the date to which the latest published audited consolidated financial statements of the Company were made up, acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group.

Each of the experts named above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report and the reference to its name included herein in the form and context in which it appears.

**9. MISCELLANEOUS**

- (a) The company secretary of the Company is Mr. Lau King Ho, a Chartered Governance Professional and an associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.
- (b) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681 Grand Cayman KY1-1111, Cayman Islands.
- (c) The head office and principal place of business in Hong Kong is at Units 3–16, 32/F, Standard Chartered Tower, Millennium City 1, 388 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong.
- (d) The principal registrar and transfer office of the Company in the Cayman Islands is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (e) The branch share registrar and transfer office of the Company in Hong Kong is 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (f) The English text of this circular shall prevail over the Chinese text in case of inconsistencies.

**10. DOCUMENTS ON DISPLAY**

Copies of the following documents will be published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company (<https://www.crconstruction.com.hk/>) during the period of 14 days from the date of this circular up to and including the 14th day thereafter:

- (a) the Framework Agreement;
- (b) the letter from the Independent Board Committee, the text of which is set out in the circular;
- (c) the letter from the Independent Financial Adviser, the text of which is set out in the circular;  
and
- (d) the written consents from the experts referred to in the paragraph headed “8. Experts and Consents” in this appendix.



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## NOTICE OF THE EGM

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### CR Construction Group Holdings Limited

華營建築集團控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1582)**

#### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of CR Construction Group Holdings Limited (the “**Company**”) will be held at Level 26, Standard Chartered Tower of Millennium No. 388 Kwun Tong Road, Kwun Tong, Kowloon, on Thursday, 5 October 2023, at 2:30 p.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolution as ordinary resolution:

#### ORDINARY RESOLUTION

1. “**THAT:**

- (a) the mutual products and services supply framework agreement dated 13 July 2023 (the “**Framework Agreement**”), a copy of which is tabled at the meeting and marked “A” and signed by the chairman of the meeting for identification purpose, pursuant to which, among others, the Company and the Zhejiang Construction Investment Group Co., Ltd mutually agreed to supply a variety of products and services to each other for a term commencing from the effective date of the Framework Agreement and ending on 31 December 2025; and the transactions and proposed annual caps contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) any one director of the Company be and is hereby authorised to, on behalf of the Company, do all such acts and sign, seal, execute and deliver all such documents and take all such actions as he/she may consider necessary or desirable for the purpose of or in connection with or to give effect to the transactions contemplated under the Framework Agreement and the proposed annual caps contemplated thereunder (including any amendment, supplement and/or any waiver of any terms thereunder), as such Director may in his/her absolute discretion deem fit.”

Yours faithfully,

On behalf of the Board

**CR Construction Group Holdings Limited**

**Guan Manyu**

*Chairman*

Hong Kong, 18 September 2023

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## NOTICE OF THE EGM

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*Registered Office:*

Cricket Square,  
Hutchins Drive  
P. O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Principal Place of Business in Hong Kong:*

Units 3–16, 32/F  
Standard Chartered Tower  
Millennium City 1  
388 Kwun Tong Road  
Kwun Tong  
Kowloon  
Hong Kong

*Notes:*

1. The resolution set out in this notice of EGM will be taken by poll pursuant to the Listing Rules and the results of the poll will be published on the websites of the Stock Exchange and the Company in accordance with the Listing Rules.
2. Any member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy needs not be a member of the Company.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer, attorney or other person authorised to sign the same.
4. Completion and return of the form of proxy will not preclude members from attending and voting in person at the EGM or at any adjourned meeting (as the case may be) should they so wish. If the relevant member attends the EGM, the form of proxy shall be deemed to be revoked.
5. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting (as the case may be).
6. Whether or not you intend to attend the EGM in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon.
7. Where there are joint registered holders of any Share, any one of such joint registered holders may vote at the EGM, either in person or by proxy, in respect of such Share as if he/she was solely entitled thereto, but if more than one of such joint registered holders are present at the EGM, whether in person or by proxy, the joint registered holders present whose name stands first on the register of members of the Company in respect of the Shares shall be accepted to the exclusion of the votes of the other registered holders.
8. The register of members of the Company will be closed, for the purpose of determining the identity of members who are entitled to attend and vote at the EGM, from Friday, 29 September 2023 to Thursday, 5 October 2023, both days inclusive, during which period no transfers of shares will be effected. In order to be eligible to attend and vote at the EGM, all properly completed and duly stamped transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 28 September 2023.