



**DILIGENT
CAPITAL**

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31 March 2026

*To the Independent Board Committee and
the Independent Shareholders of
Beijing Enterprises Water Group Limited*

Dear Sirs and Madams,

**DISCLOSEABLE TRANSACTIONS AND
CONTINUING CONNECTED TRANSACTIONS
REGARDING THE DEPOSIT SERVICES MASTER AGREEMENT AND
THE PROVISION OF DEPOSIT SERVICES**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the 2026 Deposit Services Master Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps) (the “**Transaction**”), particulars of which are set out in the section headed “Letter from the Board” (the “**Letter**”) contained in the circular of the Company to the Shareholders dated 31 March 2026 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalized terms used in this letter shall have the same meanings as ascribed to them under the section headed “Definitions” in the Circular.

1. Background of the Transaction

References are made to the announcements issued by the Company on 20 December 2023, 3 January 2024, and 18 February 2025 regarding, among other things, the continuing connected transactions contemplated under the 2024 Deposit Services Master Agreement, which has been supplemented by the 2025 Supplemental Agreement.

1.1 *The 2024 Deposit Services Master Agreement (as supplemented by the 2025 Supplemental Agreement)*

On 20 December 2023, the Company and BG Finance entered into the 2024 Deposit Services Master Agreement, pursuant to which the Group is authorised to place and maintain deposits with BG Finance, on normal commercial terms or on more favourable terms. The 2024 Deposit Services Master Agreement is effective for three years, commencing on 1 January 2024 and ending on 31 December 2026.

On 18 February 2025, the Company and BG Finance entered into the 2025 Supplemental Agreement, pursuant to which the Company and BG Finance agreed to revise the existing annual caps in relation to the provision of the Deposit Services for the remaining term of the 2024 Deposit Services Master Agreement. Under the terms of the 2025 Supplemental Agreement, the cumulative daily outstanding deposit balances placed by the Group with BG Finance during the term of the 2024 Deposit Services Master Agreement, including any interest accrued thereon, must not exceed the revised annual caps of RMB980,000,000 for the year ended 31 December 2025 and RMB980,000,000 for the year ending 31 December 2026 (the “Existing Annual Caps”).

1.2 The 2026 Deposit Services Master Agreement

On 13 February 2026, the Company and BG Finance entered into the 2026 Deposit Services Master Agreement, pursuant to which BG Finance will provide Deposit Services to the Group. The Existing Annual Caps on cumulative daily outstanding deposit balances, which were established under the 2024 Deposit Services Master Agreement (as supplemented by the 2025 Supplemental Agreement) with BG Finance, will be replaced by the Proposed Annual Caps.

2. Implications under the Listing Rules

As at the Latest Practicable Date, as each of BEGCL and BEHL owns more than 30% equity interest in BG Finance, BG Finance is an associate of both BEGCL and BEHL under Chapter 14A of the Listing Rules.

BEGCL, which is the ultimate controlling shareholder of the Company, is a connected person of the Group. Therefore, BG Finance, being an associate of the BEGCL, is also regarded as a connected person of the Company under Chapter 14A of the Listing Rules. Additionally, the provision of the Deposit Services also constitutes the provision of financial assistance by the Group to BG Finance under Rule 14.04(1)(e) and Rule 14A.24(4) of the Listing Rules.

As one or more of the applicable ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Deposit Services (including the Proposed Annual Caps) is more than 5% but less than 25%, the transactions contemplated under the 2026 Deposit Services Master Agreement constitute discloseable transactions and non-exempt continuing connected transactions for the Company under Chapter 14 and Chapter 14A of the Listing Rules. Accordingly, the 2026 Deposit Services Master Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, circular, Independent Shareholders’ approval, and annual review requirements as specified under Chapter 14 and Chapter 14A of the Listing Rules.

As the BEGCL Group and the BEHL Group are considered to have a material interest in the 2026 Deposit Services Master Agreement and the transactions contemplated thereunder, the BEGCL Group and the BEHL Group, together with their respective associates, will abstain from voting at the SGM regarding the proposed resolution to approve, among other things, the 2026 Deposit Services Master Agreement and the transactions contemplated thereunder, including the Proposed

Annual Caps. Save for the aforesaid, and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholders are required to abstain from voting at the SGM.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Shea Chun Lok Quadrant, Mr. Guo Rui, Mr. Chau On Ta Yuen, Mr. Dai Xiaohu and Ms. Chan Siu Chee Sophia, has been established to consider and advise the Independent Shareholders as to whether the terms of the Transaction are (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms; and (iii) on terms that are fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole, and to advise the Independent Shareholders on how to vote at the SGM.

In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of the Listings Rules, our role is to give an independent opinion to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Transaction are (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms; and (iii) on terms that are fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole, and to advise the Independent Shareholders on how to vote at the SGM.

OUR INDEPENDENCE

We, Diligent Capital Limited ("**Diligent Capital**"), have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard, and such appointment has been approved by the Board pursuant to the Listing Rules.

Diligent Capital is a licensed corporation under the Securities and Futures Ordinance ("**SFO**") to carry out Type 6 (advising on corporate finance) regulated activity. Mr. Felix Huen ("**Mr. Huen**") is the person signing off the opinion letter from Diligent Capital contained in the Circular. Mr. Huen has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2019, and he has participated in and completed various independent financial advisory transactions in Hong Kong.

As at the Latest Practicable Date, we confirmed that there is no relationship or interest between Diligent Capital and the Company or any other parties that could be reasonably be regarded as hindrance to Diligent Capital's independence as set out under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Shareholders in respect of the Transaction.

We are not associated with and have no significant connection, financial or otherwise, with the Company, its subsidiaries, its associates, or their respective substantial shareholders or associates, and accordingly, are eligible to give independent advice and recommendations. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial

Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates, or their respective substantial shareholders or associates. We are not aware of any circumstances that would affect our independence, nor of any changes in such circumstances. Diligent Capital did not provide any service to the Company in the last two years. Accordingly, we consider ourselves eligible to provide independent advice on the terms of the Transaction.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Transaction, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries (the “**Management**”). We have assumed that all information, facts, opinions, and representations made or referred to in the Circular were true, accurate, and complete at the time they were made and continued to be true and that all expectations and intentions of the Directors and the Management will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy, and completeness of the information, facts, opinions, and representations provided to us by the Directors and the Management. 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, opinions expressed in the Circular have been arrived at after due and careful consideration. There are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed.

We consider that we have been provided with, and we have reviewed sufficient information to reach an informed view, to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors and the Management. We have not, however, conducted any independent verification of the information provided, nor have we conducted any independent investigation into the Company’s business, financial condition, or affairs, or into its prospects.

Based on the foregoing, we confirm that we have taken all reasonable steps which are applicable to the Transaction, as referred to in Rule 13.80 of the Listing Rules (including the notes thereof) in formulating our opinion and recommendation.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the Transaction; except for its inclusion in the Circular, it is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

1. Background of the Transaction

On 13 February 2026, the Company entered into the 2026 Deposit Services Master Agreement with BG Finance.

1.1 *Information about the Company and the Group*

The Company is a company incorporated in Bermuda with limited liability, and the issued Shares of which have been listed on the Main Board of the Stock Exchange. The Company is an investment company and the holding company of the Group.

(a) *Principal business of the Group*

The Group is principally engaged in (i) the construction of sewage and reclaimed water treatment plants, and the provision of construction services for comprehensive renovation projects in the PRC, Malaysia, Australia and the Republic of Botswana; (ii) the provision of sewage and reclaimed water treatment services and seawater desalination services in the PRC, the Republic of Singapore, the Portuguese Republic, Australia, New Zealand and Saudi Arabia; (iii) the distribution and sale of piped water in the PRC, the Portuguese Republic, Australia and Saudi Arabia; (iv) the offering of technical consultancy services and the sale of machinery related to sewage treatment and construction services for comprehensive renovation projects in the PRC and Australia; (v) the licensing of technical know-how related to sewage treatment in the PRC; and (vi) the provision of urban services and hazardous waste treatment services in the PRC and Hong Kong.

(b) *Financial position of the Group*

Below is a summary of the Group's audited consolidated financial positions as of 31 December 2024 and 31 December 2025, as extracted from the Company's annual report for the year ended 31 December 2024 and the Company's annual results announcement for the year ended 31 December 2025 (the "2025 ARA"):

	As at 31 December 2025 RMB'000 (Audited)	As at 31 December 2024 RMB'000 (Audited)
Non-current assets	<u>118,766,824</u>	<u>125,199,708</u>
Current assets		
— Inventories	340,878	359,487
— Amounts due from contract customers	4,998,893	3,186,867
— Receivables under service concession arrangements	10,392,044	9,447,741
— Trade receivables	11,589,007	11,375,905
— Prepayments, deposits, and other receivables	9,190,537	7,759,427
— Derivative financial instruments	—	17,161
— Restricted cash and pledged deposits	181,730	216,336
— Cash and cash equivalents	<u>9,567,491</u>	<u>9,008,971</u>
Total current assets	<u>46,260,580</u>	<u>41,371,895</u>
TOTAL ASSETS	<u>165,027,404</u>	<u>166,571,603</u>
Current liabilities		
— Trade payables	16,974,195	19,049,467
— Other payables and accruals	7,602,541	7,631,530
— Income tax payables	1,327,381	1,402,863
— Bank and other borrowings	14,626,205	13,145,188
— Corporate bonds	3,998,254	1,997,543
— Lease liabilities	35,023	42,215
— Derivative financial instruments	<u>36,534</u>	<u>—</u>
Total current liabilities	<u>44,600,133</u>	<u>43,268,806</u>
Net current assets/(liabilities)	<u>1,660,447</u>	<u>(1,896,911)</u>

	As at 31 December 2025 RMB'000 (Audited)	As at 31 December 2024 RMB'000 (Audited)
Non-current liabilities		
Other payables and accruals	865,581	766,476
Bank and other borrowings	41,864,328	47,785,821
Corporate bonds	15,269,346	12,573,666
Lease liabilities	130,529	145,598
Provision for major overhauls	760,642	644,880
Deferred income	634,220	577,224
Deferred tax liabilities	<u>4,847,262</u>	<u>4,846,702</u>
Total non-current liabilities	<u>64,371,908</u>	<u>67,340,367</u>
TOTAL LIABILITIES	<u>108,972,041</u>	<u>110,609,173</u>
NET ASSETS	<u>56,055,363</u>	<u>55,962,430</u>

As presented in the table above, the Group's total cash and cash equivalents as at 31 December 2025 amounted to approximately RMB9,567,491,000. Out of this total, the Group has allocated approximately RMB846,874,000 to BG Finance for Deposit Services. During the years ended 31 December 2024 and 31 December 2025, the Group generated approximately RMB1,340,000 and RMB4,636,000 in interest income from the Deposit Services, respectively.

Furthermore, the Group has achieved a notable turnaround, transitioning from net current liabilities of approximately RMB1,896,911,000 as at 31 December 2024 to net current assets of approximately RMB1,660,447,000 as at 31 December 2025. This improvement suggests that the provision of Deposit Services has not adversely affected the Group's treasury management or operational efficiency, and it demonstrates a strategic approach to managing idle cash, yielding favorable interest income and flexible deposit and withdrawal arrangements.

1.2 Information of BG Finance

Below is the information related to BG Finance, including (a) the shareholding structure; (b) the principal activities; and (c) the applicable rules and regulations governing its business operations.

(a) *Shareholding structure*

BG Finance is a company established in the PRC with limited liability. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as of the Latest Practicable Date, the ownership structure of BG Finance is as follows: (i) the Company holds 6.69% directly; (ii) the BEHL Group (excluding the Company) holds a total of 44.79%; and (iii) the BEGCL Group (excluding both the Company and the BEHL Group) collectively hold 48.52%.

The ultimate beneficial owner of BEGCL is the People's Government of Beijing Municipality* (北京市人民政府). The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality* (北京市人民政府國有資產監督管理委員會) is responsible for executing ownership and control functions for BEGCL, acting with the authorization of the People's Government of Beijing Municipality.

As each of BEGCL and BEHL owns more than a 30% equity interest in BG Finance, BG Finance is an associate of both BEGCL and BEHL under Chapter 14A of the Listing Rules.

BEGCL, which is the ultimate controlling shareholder of the Company, is a connected person of the Group. Therefore, BG Finance, being an associate of the BEGCL, is also regarded as a connected person of the Company under Chapter 14A of the Listing Rules.

(b) *Principal activities*

BG Finance is a non-bank financial institution established and commenced business in 2013 with the approval granted by the National Administration of Financial Regulation (the "NAFR") (formerly known as the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)).

As at the Latest Practicable Date, BG Finance has been established as a platform for the members of the BEGCL Group (including the Group) to facilitate the provision of intra-group services through a range of financial products, including deposit-taking, money-lending, and custodian services.

(c) *Applicable rules and regulations governing the business operations*

As stated above, BG Finance operates as a non-bank financial institution in the PRC. The operations of BG Finance are supervised and regulated by the NAFR, in accordance with the prevailing regulatory framework of the PRC banking industry.

As advised by the Directors, and as of the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there has been no record of non-compliance with the applicable laws, rules and regulations of the PRC in relation to the business operations of BG Finance.

2. Reasons for and benefits of the Transaction

2.1 *The Board's view*

As outlined in the Letter, the Board acknowledges that the transaction amount under the 2024 Deposit Services Master Agreement (as supplemented by the 2025 Supplemental Agreement) has reached approximately RMB846,874,000, representing approximately 86% of the Existing Annual Caps as at 31 December 2025. Considering the Group's expected business expansion and treasury requirements, the Board anticipates that the utilization of the Deposit Services may exceed previous estimates and therefore proposes the Proposed Annual Caps for the 2026 Deposit Services Master Agreement.

In forming its view, the Board has taken into account:

- (i) the Group's consistently reliable relationship and satisfactory track record with BG Finance, with no compliance or operational issues;
- (ii) BG Finance's capability to support the Group's liquidity needs through centralized deposit and fund management;
- (iii) the non-exclusive nature of the Deposit Services; and
- (iv) the interest rates offered by BG Finance, which are expected to be comparable to or more favourable than those offered by commercial banks in Hong Kong and the PRC.

In light of the above, the Directors have confirmed that the terms of the 2026 Deposit Services Master Agreement and the Proposed Annual Caps are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group, and are in the interests of the Company and the Shareholders as a whole.

2.2 *Our view*

To assess the rationale for the Transaction, we have taken into consideration the factors above with the following conclusions:

- (a) *The strong and reliable relationship between the Company and BG Finance*

BG Finance has been providing the Deposit Services to the Group since 2014, resulting in a strong and enduring relationship. We have engaged in discussions with Management to gain insights into the performance of the Deposit Services and the

collaboration between the Group and BG Finance. It has been noted that since 2014, a positive relationship has been established, characterized by (i) Deposit Services have been delivered consistently and without interruption; (ii) all deposits have been repaid in full upon maturity, in compliance with applicable regulatory requirements; (iii) operational processes, including the settlement of funds, have been executed efficient, securely and promptly, with no reported delays or disruptions; and (iv) the interest rates offered by BG Finance have consistently been more favourable than those provided by comparable commercial banks. In addition, the waiver of transfer handling fees has resulted in significant cost savings for the Group. Furthermore, the Management has confirmed that there have been no significant compliance issues or operational challenges during this period of service.

BG Finance serves as the primary provider of financial services to the Group and its member companies, enabling it to cultivate a comprehensive understanding of the various industries in which the Group operates. Given its expertise in the Group's capital structure, BG Finance is well-positioned to identify and anticipate the Group's funding requirements. As a result, BG Finance can deliver flexible, convenient, customized, and cost-effective financial solutions tailored to the Group's needs.

(b) *Implementing a more comprehensive and centralized fund management system to enhance the Group's fund management efficiency*

To enhance the Group's fund deployment of funds and streamline the centralization of its fund management and utilization process, we acknowledge that a control account has been established with BG Finance. This account serves as a platform for internal settlement, fundraising, financing, and overall fund management across the Group and its member companies. As a result, the financial services provided by BG Finance are designed to enhance transaction efficiency between the Group and its member companies. By facilitating internal fund transfers without relying on external inter-bank processes, these services will enable immediate settlement and improve the Group's overall liquidity management.

With the support of the account management system and the expertise of BG Finance as a financial institution, we concur that this represents an opportunity for the Group to enhance the centralized management of its subsidiaries' funds. By consolidating available idle cash into BG Finance accounts, the Group can achieve greater efficiency.

Furthermore, BG Finance is prepared to offer tailored proposals for the centralized deposit and management of funds that align with the Group's specific management needs. This enables the Group to meet its funding requirements with flexibility through timely withdrawals. Moreover, BG Finance will facilitate improved fund turnover, allowing for a more efficient clearing and settlement process and reducing associated bank charges.

In summary, we agree that collaborating with BG Finance will significantly enhance internal settlement efficiency and help lower the Group's overall fund costs by waiving transfer handling fees and providing savings on bank confirmation fees typically incurred with external financial institutions.

(c) *The Group shall use the Deposit Services on a voluntary and non-exclusive basis*

The 2026 Deposit Services Master Agreement is non-exclusive, allowing the Group the flexibility to engage with other commercial banks and financial institutions to fulfill its financial services requirements. BG Finance is one of several financial institutions that provide the Deposit Services to the Group. The Group may consider entering into transactions with BG Finance only when the rates, fees, or other applicable terms are equivalent to, or more favourable than, those offered by the major cooperative commercial banks with which the Group collaborates. Furthermore, the Group reserves the right to engage additional or other financial institutions, as deemed appropriate, to ensure the optimal provision of financial services.

(d) *The favourable commercial terms offered by BG Finance*

In accordance with the provisions of the 2026 Deposit Services Master Agreement, BG Finance is committed to offering a deposit interest rate for the Deposit Services that will not be less than (i) the benchmark interest rate established by the People's Bank of China (the "PBOC") for the comparable types and terms of deposits; (ii) the interest rates offered by commercial banks in Hong Kong and the PRC for similar types of deposits; and (iii) the interest rates offered by BG Finance to other members of the BEGCL Group for the same types of deposits over the same duration.

The Management confirms that since the Group utilised the Deposit Services, all deposits placed by the Group with BG Finance have met the aforesaid conditions. For additional information regarding our comprehensive review of the summary of interest-bearing deposits, please refer to the section headed "4. Internal control procedures and corporate governance measures".

(e) *Capital risk control, internal control and risk management measures adopted by BG Finance*

After discussions with the Management, we further understand that BG Finance has implemented the following internal control and risk management measures:

i. Regulatory status and deposit protection

BG Finance is a non-bank financial institution that has received approval and regulation from the NAFR and is operated under the supervision of several regulatory bodies, including the PBOC, the State Administration of Foreign Exchange, the China National Association of Finance Companies, and the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality. BG Finance complies with regulatory standards comparable to those of commercial banks and implements stringent fund management to safeguard deposits.

ii. Ongoing supervision and compliance

BG Finance is subject to ongoing on-site and off-site supervision by the NAFR and its branch office. It submits regulatory reports on a daily, monthly, quarterly, and annual basis. These reports include financial statements, statistical reports, operational information, and audit reports prepared by certified public accountants.

iii. BG Finance is operating with positive indicators

As at 31 December 2025, in accordance with Article 34 of the Administrative Measures for Enterprise Group Finance Companies* (企業集團財務公司管理辦法) (the “**Administrative Measures**”), as promulgated by the NAFR, the following are the regulatory indicators of BG Finance:

Regulatory indicators	Requirements	BG Finance ratio as of 31 December 2025
a) capital adequacy ratio	Not less than the minimum regulatory requirement of 10.5%	24.56%
b) liquidity ratio	Not less than the minimum regulatory requirement of 25%	98.36%

Regulatory indicators	Requirements	BG Finance ratio as of 31 December 2025
c) inter-bank lending ratio	shall not exceed the total capital	0%
d) guarantee ratio	shall not exceed the total capital	0%
e) investment ratio	not exceed the regulatory ceiling of 70% of net capital	51.58%
f) fixed assets ratio	not exceed the regulatory ceiling of 20% of net capital	0.04%
g) non-performing loans ratio	not exceed the regulatory ceiling of 20% of net capital	0.00%

All indicators outlined above comply with the regulatory requirements established by the NAFR. Therefore, we see this as proof of BG Finance's strong creditworthiness and asset quality. Moreover, BG Finance exhibits significantly lower exposure to counterparty risk, credit risk, market risk, and liquidity risk than the industry average.

The applicable laws and regulations indicate that the services provided by BG Finance are strictly limited to the fellow enterprise members within the group. In this context, BG Finance has built significant mutual trust, established strong relationships, and maintained stable and long-term cooperation with the Group. Moreover, BG Finance has a comprehensive understanding of the operations and risk appetite of each member of the Group, more than that of external financial institutions. This insight enables BG Finance to develop more effective risk control measures tailored to the Group's needs.

Having considered the above, we concluded that BG Finance, as a non-banking financial institution established with the approval of the NAFR, is subject to direct and ongoing supervision by the NAFR. BG Finance is required to comply with all applicable regulatory provisions, including maintaining the necessary capital adequacy ratio, liquidity ratio, and the ratio of borrowing balance and outstanding guarantees to total capital, as well as the ratios for both short-term and long-term investments in securities to total capital. Meanwhile, BG Finance is directly regulated by the PBOC, requiring the timely and full payment of deposit reserves.

In forming our view, we have reviewed BG Finance's periodic regulatory submissions to the NAFR and the PBOC, together with the relevant internal records, regulatory reporting materials, and other supporting documents provided to us. Specifically, such periodic submissions primarily consisted of (i) monthly financial statements; (ii) annual operational reports; and (iii) annual audit reports. We have obtained and examined all the aforementioned submission categories for 2024 and 2025, and our review found no irregularities or exceptions.

(f) *Deposit utilisation and risk prevention for the Deposit Services*

We noticed that under the 2026 Deposit Services Master Agreement, BG Finance is committed to using the deposits received from the Group primarily to improve the Group's credit capacity, thereby ensuring the security of deposit funds. As a result, when the Group secures financing from BG Finance and has excess funds available, it can deposit these funds with BG Finance. This strategy allows the Group to earn interest on the deposited amount, effectively lowering its finance costs.

In the event that BG Finance encounters operational challenges, BEGCL Group, as the founding entity and parent company of BG Finance, will assume the primary responsibility for risk management and resolution in accordance with the regulations of the PRC, including the Administrative Measures, and the articles of association of BG Finance. As the case may be, BEGCL Group is committed to providing additional capital or liquidity to BG Finance. Furthermore, BG Finance undertakes to prioritize capital replenishment and liquidity to ensure the timely repayment of the Group's deposits.

Conclusion

To conduct a thorough evaluation, we undertook the following review:

- (i) we examined the 2024 Deposit Services Master Agreement (as supplemented by the 2025 Supplemental Agreement) previously entered into by the Group. We found that the terms relating to the Deposit Services in the 2024 Deposit Services Master Agreement (as supplemented by the 2025 Supplemental Agreement) are consistent with those set forth in the 2026 Deposit Services Master Agreement;
- (ii) we reviewed (a) deposit interest rate quotations from independent commercial banks in the PRC; and (b) a selection of interest slips from historical deposit transactions between the Group and BG Finance, sampled on a non-exclusive and random basis. This review confirmed that the interest rate applicable to the Deposit Services was at least equal to or higher than the interest rates offered by other major commercial banks; and
- (iii) we conducted a review of independent information derived from the letters issued by the Company's auditors (the "Auditors") and noted that the Auditors executed procedures in accordance with Hong Kong Standard on Assurance Engagements

3000 (Revised) and with reference to Practice Note 740 (Revised). The Auditors confirmed that they had performed sample checks on the continuing connected transactions entered into between the Group and BG Finance for the year ended 31 December 2025, and the results indicated that, in all material respects, these transactions complied with the pricing policies specified in the relevant agreements.

After considering the above factors, in view of the fact that entering into the 2026 Deposit Services Master Agreement allows the Company to effectively utilise the Deposit Services with enhanced capacities, given that (i) the Existing Annual Caps have nearly been fully utilised; and (ii) the terms offered by BG Finance are more favourable. Therefore, we conclude that the entering into of the 2026 Deposit Services Master Agreement is in the interest of the Company and the Independent Shareholders as a whole.

3. Principal terms of the 2026 Deposit Services Master Agreement

Set out below is the principal terms of the 2026 Deposit Services Master Agreement:

Date	:	13 February 2026
Parties	:	(i) the Company; and (ii) BG Finance.
Effective conditions	:	The 2026 Deposit Services Master Agreement will become effective upon the fulfillment of the following conditions: (i) compliance with the Listing Rules regarding continuing connected transactions; and (ii) if applicable, compliance with the Listing Rules requiring the Company to meet obligations related to disclosure, announcements, and obtaining approval from Independent Shareholders.
Effective Date	:	The 2026 Deposit Services Master Agreement shall be effective from the date of obtaining the Independent Shareholders' approval at the SGM.
Term	:	The term of the 2026 Deposit Services Master Agreement shall commence from 13 February 2026 up to and including 31 December 2028.

Scope of the Deposit Services

- ⋮ The Group has opened a deposit account with BG Finance, and the funds are deposited with BG Finance under the principle of free deposit and withdrawal access. BG Finance offers the Group a variety of deposit services, including demand deposits, call deposits, time deposits, and agreement deposits.

BG Finance ensures the security of the Group's deposits and promptly and thoroughly fulfills the Group's funding requests. If BG Finance fails to pay the Group the deposit in full and on time, the Company may terminate the 2026 Deposit Services Master Agreement.

Subject to the terms of the 2026 Deposit Services Master Agreement, the Company and BG Finance will sign specific contracts and agreements to meet the Group's service needs related to the Deposit Services. These contracts and agreements will outline the particular transaction terms and adhere to the principles, terms, and relevant legal provisions set out in the 2026 Deposit Services Master Agreement.

Pricing

- ⋮ BG Finance shall provide the Group with Deposit Services at an interest rate for deposits that is not lower than the following:

- (i) the benchmark interest rate prescribed by the PBOC for the same type of deposits and the same period;
- (ii) the interest rates offered by commercial banks in Hong Kong and the PRC to the Group for the same type of deposits over the same period; and
- (iii) the interest rate offered by BG Finance to other member companies of BEGCL Group for the same type of deposits during the same period.

Termination of 2024 Deposit Services Master Agreement (as supplemented by the 2025 Supplemental Agreement)

- ⋮ Upon the coming into effect of the 2026 Deposit Services Master Agreement, the 2024 Deposit Services Master Agreement (as supplemented by the 2025 Supplemental Agreement) shall be automatically terminated. Neither BG Finance and the Company is required to make any payment to each other as a result of such automatically termination.

3.1 *Basis of the Proposed Annual Caps*

As stated in the Letter, the Proposed Annual Caps were determined based on the following factors:

- (i) **Maximum daily deposit balances of the Group with the BG Finance.** The maximum daily deposit balances placed by the Group with BG Finance for the years ended 31 December 2024 and 31 December 2025 (i.e., approximately RMB645.37 million and approximately RMB907.01 million) are close to the Existing Annual Caps, indicating that the existing deposit limits may not adequately meet the Group's deposit requirements with BG Finance.
- (ii) **Balance of cash and cash equivalents of the Group.** Based on the annual results of the Group for the year ended 31 December 2025, the Group's cash and cash equivalents were approximately RMB9.57 billion as of 31 December 2025, indicating a strong cash position. This total includes (a) approximately RMB193 million held in independent third-party financial institutions as time deposits; (b) approximately RMB8.53 billion placed in independent third-party financial institutions as savings deposits; and (c) approximately RMB847 million placed in BG Finance for Deposit Services.

In light of the Group's treasury management concerning its current cash balances, the Existing Annual Caps of RMB980 million limit its ability to access additional Deposit Services from BG Finance. Consequently, the Group will need to seek deposit services from other financial institutions, which may not offer the best terms, potentially resulting in increased charges and expenses.

The adoption of the Proposed Annual Caps would provide the Group with enhanced flexibility to engage either BG Finance or other independent third-party financial institutions for deposit services. This strategic adjustment will facilitate better management of cash balances and contribute to overall cost reduction.

- (iii) **Strengthened operating cash inflows of the Group.** As disclosed in the Company's interim report for the six months ended 30 June 2025, the Group achieved a significant increase of approximately RMB1.69 billion in net cash inflows from operating activities for the six months ended 30 June 2025 compared to the same period in 2024. The Management has further indicated that this positive trend continued into the financial year ended 31 December 2025. This improvement reflects the Group's strengthened capacity to generate cash. Furthermore, the Group has implemented strict expenditure controls and effectively managed free cash flow, thereby enhancing operational resilience. Given the continued development in its existing business segment and its consistent profitability over the past five years, we concur with Management's anticipation of an increase in cash flow in the

coming years. This growth is expected to drive demand for Deposit Services to efficiently manage idle cash and maintain flexibility in cash management as required by the Company.

To further assess the fairness and reasonableness of the Proposed Annual Caps, we conducted the following work:

(a) *Review of the historical record in connection with the Deposit Services*

To assess the potential need for revisions to the Existing Annual Caps, we have discussed with the Management and conducted a thorough review. This review includes (i) the historical outstanding balance of the deposit placed by the Company with BG Finance as at 31 December 2024 and 31 December 2025, and the Latest Practicable Date; (ii) the maximum daily outstanding deposits placed by the Group with BG Finance on any given day during each of the specified periods; and (iii) the utilization rates of the Existing Annual Caps for each of the aforesaid period.

		For the period from 1 January 2026 up to and including the Latest Practicable Date (unaudited)	For the years ended	
			31 December 2025 (audited)	31 December 2024 (audited)
Maximum amounts of cumulative daily deposits for the year/period (approximately)	(a)	RMB855.40 million	RMB907.01 million	RMB645.37 million
The deposit caps for the period/year	(b)	RMB980 million	RMB980 million	RMB710 million
Utilisation rate (%)	(a)/(b)	87.29%	92.55%	90.90%

As noted above, the historical maximum daily deposit balances placed by the Group with BG Finance for the two years ended 31 December 2024 and 31 December 2025 and for the period from 1 January 2026 up to and including the Latest Practicable Date amounted to approximately RMB645.37 million, RMB907.01 million, and RMB855.40 million, respectively, representing utilisation rates of approximately 90.90%, 92.55% and 87.29% of the Existing Annual Caps. This indicates that the Existing Annual Caps have been nearly fully utilised, reflecting a consistent and substantial demand for the Deposit Services.

(b) *Review of the cash position of the Group*

As disclosed in the 2025 ARA, the Group's cash and cash equivalents as at 31 December 2025 amounted to approximately RMB9.57 billion, representing nearly ten times the Existing Annual Caps. Discussions with Management clarified expectations for the maximum daily deposit balance starting in 2026. It is anticipated that this balance will increase, primarily driven by growth in operating cash flows, business expansion, and the accumulation of cash reserves through regular business operations.

The Group projects that its cash position will increase over the coming three years ending 31 December 2028. This anticipated growth is primarily attributed to strategic advancements in the following areas:

- (i) enhancing sewage and water supply operations through the adoption of digitalisation and smart plant initiatives;
- (ii) transitioning the water renovation construction services business from a capital-intensive investment model to a light-asset service model, this entails continuing to minimise investment in Build-Operate-Transfer (BOT) water projects while concentrating on asset-light service offerings;
- (iii) expanding urban resources services, which mainly comprise municipal environmental services such as road cleaning, waste collection and transfer, and solid waste treatment. These services are characterized by short payment cycles and stable cash inflows; and
- (iv) developing technology platform businesses, including Software as a Service (SaaS) subscription services and equipment sales.

In forming this view, we discussed with the Management and conducted a thorough review of the Group's business strategy, historical financial information, and recent performance. Our analysis revealed a significant shift in the Group's revenue mix, as highlighted in the Company's annual results. Specifically, revenue from the Group's sewage and reclaimed water treatment business increased from approximately RMB8,643.4 million in 2023 to approximately RMB9,178.0 million in 2024 and reached approximately RMB9,456.5 million in 2025. Similarly, revenue from the Group's urban resource services grew from approximately RMB5,057.6 million in 2023 to approximately RMB6,027.7 million in 2024, with approximately RMB6,293.5 million recorded in 2025. This trend indicates a strengthening of recurring service revenue, likely enhancing the stability of cash flows from operations.

In contrast, we observed a decline in revenue from Build-Operate-Transfer (BOT) water projects business, from approximately RMB4,540.6 million in 2023 to approximately RMB2,616.0 million in 2024, and further to approximately RMB1,125.8 million in 2025. This reduction aligns with the Company's strategic shift toward asset-

light, service-oriented operations, reflecting a deliberate move away from capital-intensive models. A higher proportion of revenue derived from water treatment business and urban resource services is expected to provide greater predictability in cash receipts and decrease near-term capital commitments compared to the BOT model.

Additionally, as noted in the Company's published annual reports, concurrent initiatives such as regional expansion, international operations, and maintenance (O&M) contracts, digitalization of operations, and the implementation of prefabricated, energy-efficient moving bed biofilm reactor (MBBR) equipment contribute to shorter construction cycles, reduced project costs, and more stable cash generation. These factors support the Company's ability to conserve and enhance cash reserves.

Based on our observations, we believe that the revenue trends across various segments, combined with strategic initiatives aimed at asset-light O&M, deployment of prefabricated equipment, digitalized operations, and geographic diversification, provide compelling evidence that the Company is taking decisive steps to improve operational efficiency, reduce capital intensity, and stabilize operating cash inflows. Taking the above factors into consideration, it is our assessment that the expectation for an increase in the Group's cash position for the coming three years ending 31 December 2028 is fair and reasonable.

Furthermore, we noted that the Group has maintained profitability over the past five financial years and the existing treasury management indicates a significant demand for the Group to increase Deposit Services offered by BG Finance, especially if BG Finance can offer more favourable terms than other financial institutions. Specifically, we recognised that the Group (i) achieved a audited net profit of over RMB2 billion from 2022 to 2025; (ii) generated more than RMB2 billion in net cash inflow from operating activities during the years 2022 to 2025; (iii) reported cash and bank balances totaling approximately RMB9.57 billion as of 31 December 2025, which included approximately RMB847 million held in Deposit Services at BG Finance and approximately RMB8.72 billion deposited with other independent commercial banks, representing approximately 8.9% and approximately 91.1% of the Group's total cash and bank balances, respectively. In light of these considerations, we concur with the Management that the Existing Annual Cap is far below the cash balance available to the Group and is unable to satisfy the actual demand of the Group's Deposit Services, while the Proposed Annual Caps allow the Group to increase the buffer for the Deposit Services with better commercial terms.

After considering these factors, there is consensus that the Existing Annual Cap is too low relative to the Group's cash balance and does not adequately meet the Group's actual demand for Deposit Services. On the other hand, the Proposed Annual Caps would increase the Group's capacity for Deposit Services, enabling it to obtain more favourable commercial terms.

It is advised that the Proposed Annual Caps be established to accommodate idle cash generated from operating activities, and the possible drawdowns of loan facilities that may be temporarily deposited under the Deposit Services. The Group reserves the right to withdraw its deposit with BG Finance, either in full or in part, thereby providing flexibility to manage its cash resources as needed without restrictions.

Given that the Deposit Services present the Group with an option, rather than an obligation, to deposit its cash with BG Finance on terms that are more advantageous than those offered by other commercial banks, we concur with the Directors that the Proposed Annual Caps should (i) be set at a level that includes a buffer to afford the Group flexibility in earning interest income through deposits with BG Finance; (ii) be based on reasonable estimation following due and careful considerations; and (iii) be regarded as fair and reasonable for the Company and the Independent Shareholders.

(c) *The expected increase in the utilization rate of the Group's funds and the ability of centralized fund management*

Following our review of BG Finance's capital risk control, internal control and risk management measures, we recognised that BG Finance has established a comprehensive internal control system. This system is designed to enhance the Group's centralized fund management across its subsidiaries and banking institutions in various provinces. As the collaboration with BG Finance deepens, we agree with the Management that the transaction volumes between the Group and BG Finance will increase. To facilitate more efficient settlement and collection of transaction funds, we understand the Group's decision to expand the Deposit Services, which aims to leverage the control account with BG Finance to significantly improve the efficiency of its fund utilization.

Conclusion

It is expected that, as the Group's business continues to grow, there will be a corresponding increase in both cash and cash equivalents and overall demand for deposits. As of the Latest Practicable Date, the Group has approached the Existing Annual Caps for the years 2024 and 2025. Consequently, we concur with the Directors that, from a strategic perspective, it would be in the interests of the Company to adjust the Existing Annual Caps to enhance its relationship with the BG Finance.

Furthermore, following our evaluation, we hereby summarize that (i) the Group has effectively preserved a considerable amount of cash and cash equivalents, totaling approximately RMB 9.57 billion as of 31 December 2025, which represents nearly ten times the Existing Annual Caps; (ii) of the total cash and cash equivalents, only 8.9% has been allocated for Deposit Services, indicating a considerable opportunity for the Group to increase the cap designated for these services; (iii) the Group has demonstrated robust profitability, with net operating cash inflows exceeding RMB 2 billion annually. This consistent cash generation reflects strong financial health and ongoing demand for the Deposit Services; (iv) in light of the Group's business development strategy, we concur with Management's

expectations that operating cash flows are likely to increase in the forthcoming years. This anticipated growth further reinforces the expected rise in demand for the Deposit Services; and (v) considering the terms provided by BG Finance, which are expected to be at least as favorable as those from other independent commercial banks, along with potential reductions in bank charges, there exists an opportunity for improved interest returns should the Group increase the utilization of Deposit Services under the Proposed Annual Caps. Taking these factors into account, we are of the view that the proposed significant increase in the Proposed Annual Caps compared to the Existing Annual Caps is both fair and reasonable for the Company and so far as the Independent Shareholders are concerned.

4. Internal control procedures and corporate governance measures

As stated in the Letter, we acknowledged that the Company has established the following internal control procedures and corporate governance measures concerning the provisions of the Deposit Services:

- (i) **The Group will place deposits with BG Finance on a voluntary and non-exclusive basis.** We are advised that prior to making any deposit with BG Finance, the Company will ensure that it obtains and evaluates at least four comparable interest rates for deposits of the same type and duration from independent commercial banks. Additionally, these rates will be compared against the benchmark deposit interest rates established by the PBOC at the time of the transaction;
- (ii) **The Management is committed to selecting interest rate terms that are favourable for the Group.** The Group will diligently gather deposit interest rates from independent commercial banks, in addition to the benchmark deposit interest rates set by the PBOC. This information will be submitted to the Group's finance and risk management departments for thorough review. This process is crucial to ensure that the terms proposed by BG Finance fully comply with the stipulations outlined in the 2026 Deposit Services Master Agreement. Additionally, the Management will ensure that these terms are at least as favorable to the Group as those provided by independent financial institutions;
- (iii) **The Company is committed to providing an annual report to the independent non-executive Directors that outlines the maximum amounts of cumulative daily deposits for the respective financial year.** In conjunction with this, the Auditors will undertake a comprehensive annual review of the transactions contemplated under the 2026 Deposit Services Master Agreement, focusing on the pricing policy and annual caps in alignment with the Listing Rules. Moreover, the independent non-executive Directors will include confirmations in the Company's annual reports regarding these transactions. This process ensures that all transactions are executed on normal commercial terms, are fair and reasonable, and adhere to their contractual obligations;

- (iv) **The Company is committed to closely monitoring the status of its deposits and transactions with BG Finance through the internet banking services provided by that institution.** To ensure compliance with the Proposed Annual Cap as outlined in the 2026 Deposit Services Master Agreement, the Group's finance department will conduct daily assessments of the Group's aggregate maximum deposit balance with BG Finance. If it is anticipated that the transactions will reach or exceed the relevant annual cap(s), the finance department will immediately communicate this to the Management, along with any necessary recommendations. Should a revision to the annual cap(s) be warranted, the relevant details will be submitted to the Board, and a meeting will be convened to consider the necessary actions to ensure adherence to the Listing Rules; and
- (v) **The Company will review BG Finance's financial statements, to the extent available, to monitor its performance and assess the safety of the deposits placed by the Group with BG Finance.** The review will help identify any adverse changes in BG Finance's financial condition and determine whether adjustments to the Group's deposit exposure are necessary.

We have conducted a comprehensive review of the summary of interest-bearing deposits that the Group placed and maintained with BG Finance for the year ended 31 December 2025 (the "**Review Period**"), which was provided by the Management, the review examined a total of 40 deposit transactions during the Review Period. From this total, randomly selected and reviewed 24 transactions (the "**Selected Deposits**"). The samples represent over 50% of the total population and are considered sufficient and representative, considering that the selected transactions account for a significant share of the total, including deposits of varying sizes and maturities. Additionally, we obtained interest rate quotations from independent third-party financial institutions that the Management used to determine the relevant reference interest rate(s) for the Selected Deposits. As advised by the Management, the Company typically obtains benchmark interest rate quotations in accordance with the aforementioned internal control measures, which serve as references when utilising Deposit services with BG Finance. It was noted that the interest rates offered by BG Finance to the Group were consistently more favourable than those of comparable commercial banks and financial institutions for similar deposit types throughout the 2024 Deposit Services Master Agreement (as supplemented by the 2025 Supplemental Agreement).

We reviewed the letters issued by the Auditors and have confirmed with the Auditors that the Deposit Services executed under the 2024 Deposit Services Master Agreement (as supplemented by the 2025 Supplemental Agreement) are fully compliant with the established pricing policies. Furthermore, we have identified no issues of non-compliance related to the Deposit Services.

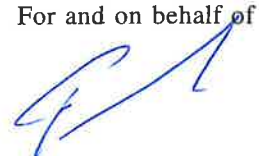
In conclusion, it has been determined that the Group has effectively followed its internal control system in overseeing the execution of the Deposit Services. This ensures that the Deposit Services provided align with the interests of both the Company and the Independent Shareholders. As a result, we are of the view that the Deposit Services under the 2026 Deposit Services Master Agreement are under effective control and are fair and reasonable.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that the terms of the 2026 Deposit Services Master Agreement, are (i) on normal commercial terms and in the ordinary and usual course of business of the Group; (ii) fair and reasonable; and (iii) in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend that the Independent Board Committee recommend to the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Transaction, and we recommend that the Independent Shareholders vote in favour of the resolutions in this regard.

Yours faithfully
For and on behalf of



Diligent Capital Limited
Felix Huen
Director

* *For identification purpose only and should not be regarded as the official English translation of the Chinese names. In the event of any inconsistency, the Chinese names prevail.*