OVERVIEW

As of the Latest Practicable Date, our Company was directly held as to approximately 34.35% by Mr. Xu. Immediately following the completion of the [**REDACTED**], assuming the [**REDACTED**] is not exercised, Mr. Xu will be entitled to exercise the voting rights attached to approximately [**REDACTED**] of our Shares in issue. Assuming the [**REDACTED**] is exercised in full, Mr. Xu will be entitled to exercise the voting rights attached to approximately [**REDACTED**] of our Shares in issue. Accordingly, Mr. Xu will remain as the Controlling Shareholder of our Company upon Listing.

See "Directors and Senior Management" for biographical details of Mr. Xu. See "History and Corporate Structure" for the simplified corporate structure of our Group.

RULE 8.10 OF THE LISTING RULES

As of the Latest Practicable Date, our Controlling Shareholder did not have any interest in any business which competes, or is likely to compete, either directly or indirectly, with our business and would require disclosure under Rule 8.10 of the Listing Rules.

NON-COMPETE UNDERTAKING

Mr. Xu has entered into a non-compete undertaking on December 18, 2013 (the "**Non-compete Undertaking**"), pursuant to which Mr. Xu has undertaken, amongst others that, so long as he remains as a Shareholder or for a period of three years commencing from the date on which he ceases to be a Shareholder:

(i) Mr. Xu shall not engage, directly or indirectly, in any business which is the same, similar to, or constitutes actual or potentially competitive business with our Company and shall procure any entities directly or indirectly held or controlled by Mr. Xu (other than our Company) (the "**Restricted Entities**") not to engage in a business which competes or may compete with the business of our Company;

(ii) if, for any reason, any Restricted Entities directly or indirectly engages in a business which competes or may compete with the business of our Company, our Company shall have the priority to engage in such business and the Restricted Entities shall not engage in such business. If requested by our Company, Mr. Xu shall transfer all his interests in the Restricted Entity, and undertake to grant to our Company a pre-emptive right on such interests, and shall procure such transaction is conducted based on a fair and reasonable consideration and normal commercial terms with independent third parties; or

(iii) if our Company further expands our business scope, Mr Xu shall not and shall procure the Restricted Entities not to compete with our Company; if there are any potential competition with our Company, Mr Xu and the Restricted Entities shall: (a) cease the business that competes or may compete with our Group; (b) inject the competing business into our Company; (c) transfer the competing business to an unrelated third party; or (d) adopt other measures that are beneficial to our Company;

(iv) senior management personnel of the Restricted Entities shall not hold senior management positions in our Company;

(v) Mr. Xu will not make use of his status as the actual controller of our Company to cause detriment to the interests of our Company or other minority Shareholders; and

(vi) Mr. Xu shall be liable for all economic loss suffered by our Company and other minority Shareholders as a result of a breach of the above undertakings.

INDEPENDENCE OF OUR GROUP FROM OUR CONTROLLING SHAREHOLDER

Our Directors are of the view that our Group is capable of carrying on its business independently from its Controlling Shareholder following the completion of the [**REDACTED**] for the following reasons.

Management Independence

Our Board comprises five executive Directors and four independent non-executive Directors. Our daily management and operational decisions are made collectively by our executive Directors and our senior management, with our Board having overall supervision of our senior management. Although Mr. Xu is one of our executive Directors and the chairman of the Board, we believe that all of our Directors, including the independent non-executive Directors, have the requisite qualifications, integrity and experience to maintain an effective board. We also have sufficient members of our management team who are independent from Mr. Xu and have the adequate relevant experience to ensure the normal operation of the day-to-day business and management of our Group. We consider that our Directors and the senior management of our Company can independently perform their duties and we can operate independently from Mr. Xu, our Controlling Shareholder, for the following reasons:

(i) save for Mr. Xu, all of our Directors and members of our senior management team are independent from our Controlling Shareholder, and are able to contribute sufficient time and efforts to manage the daily operations of our Group. In addition, the management personnel of our Company have clear reporting lines, and the senior management team reports ultimately to our Board. Our Board supervises and monitors the performance of our Company's senior management team generally through regular meetings of our Board and extraordinary meetings of our Board to consider, deliberate and approve material matters which exceed the delegated authorities of senior management team, as well as the regular updates of operational and financial data and information that are provided to our Directors;

(ii) each of our Directors is aware of his/her fiduciary duties as a director of our Company which requires, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest;

(iii) our Company is an A-share listed company and has established internal control mechanisms to identify related party transactions and connected transactions to ensure that our Shareholders or Directors with conflicting interest in a proposed transaction will abstain from voting on the relevant resolutions. Our Articles of Association has also made relevant provisions to avoid conflict of interest, in that our Directors are prohibited from voting in any Board resolution approving any contract or arrangement or any other proposal in which he/she or any of his/her close associates has a material interest. Mr. Xu has abstained and will abstain from voting in Board meetings in respect of matters in relation to himself and/or his close associates;

(iv) our Board has a balanced composition of executive Directors and independent non-executive Directors which ensures the independence of our Board in making decisions affecting our Company. Specifically, (a) our independent non-executive Directors are not associated with our Controlling Shareholder or his associates; (b) our independent non-executive Directors account for over one-third of the Board; and (c) our independent non-executive Directors individually and collectively possess the requisite knowledge and experience as independent directors of listed companies and will be able to provide professional and experienced advice to our Company. Accordingly, we believe that our independent non-executive Directors are able to bring impartial and sound judgment to the decision-making process of our Board and protect the interest of our Company and the Shareholders as a whole; and

(v) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholder which would support our independent management.

Each Director possesses relevant management or industry-related experience to act as a Director. Details of the experience of each Director are set out in "Directors and Senior Management."

In light of the above, our Directors are of the view that our Company has our own management team which is capable of maintaining the independence of our Company from our Controlling Shareholder and supporting the independent operation of our Group.

Operational Independence

Our Company will continue to operate independently from our Controlling Shareholder after the Listing. Our Company has our own organizational structure with independent departments, each with specific areas of responsibility. Furthermore, we have independent production capabilities and technology relating to our Group's business and do not rely on the operations of our Controlling Shareholder or any of his close associates. Our Company also maintains a set of comprehensive internal control measures to facilitate the effective operation of our business. Our Company has independent channels to access our customers and is not dependent on our Controlling Shareholder with respect to suppliers for our business operations. Our Company has its own employees to operate the business and can independently manage its human resources. We have obtained relevant licences, approvals and permits from relevant regulatory authorities which are material to our operations in the PRC.

Our Group entered into a total of four engineering procurement construction contracts with Sanhe Environmental on November 15, 2023, December 5, 2024, December 15, 2025 and February 3, 2026, respectively (collectively, the "**Construction Contracts**"). Pursuant to the Construction Contracts, Sanhe Environmental agreed to undertake the relevant construction works in respect of our Group's sewage treatment system in Jiangmen, Jiangsu, Zhejiang and Chizhou, respectively, which is expected to be completed by 2026. The total construction fees payable under the Construction Contracts is approximately RMB32.3 million (the "**Construction Fees**"), which shall be payable by us on a progressive basis in accordance with the construction milestones stipulated in each of the Construction Contracts.

The Construction Fees are determined based on arm's length negotiations having regard to: (i) the nature, scope and type of engineering and construction products and services required; (ii) the applicable product quality, quantity and service performance standards and requirements; (iii) the expected cost involved, plus a mark-up taking into account the complexity of the construction work; and (iv) comparable market prices for such construction work procured by our Group from Independent Third Parties. As of the Latest Practicable Date, we have made payments in the aggregate sum of approximately RMB12.24 million to Sanhe Environmental in accordance with the terms of the Construction Contracts, representing approximately 39.71% of the total Construction Fees.

Our Group and Sanhe Environmental have maintained a long-term and stable business relationship during the Track Record Period. Through this ongoing cooperation, Sanhe Environmental has become familiar with our Group's operational requirements and quality standards. As of the Latest Practicable Date, Sanhe Environmental is indirectly wholly-owned by Mr. Xu, our executive Director and Controlling Shareholder. As such, Sanhe Environmental is our connected person pursuant to the Listing Rules and the transactions contemplated under the

Construction Contracts will therefore be regarded as one-off connected transactions of our Company for the purposes of the Listing Rules. Accordingly, the reporting, announcement, annual review and independent shareholders' approval requirements with respect to continuing connected transactions under Chapter 14A of the Listing Rules will not be applicable.

Given that (i) the Construction Contracts are on normal commercial terms after arm's length negotiations in the ordinary and usual course of our business; and (ii) even if Sanhe Environmental were to terminate such contracts, the impact on our business operations would be limited as we would be able to procure alternative services from Independent Third Parties in the market, our Directors are of the view that the transactions contemplated thereunder would not cast doubt on our operational independence.

We also entered into certain continuing connected transactions with our connected persons. See "Connected Transactions" for more details.

Taking into account the amounts and nature of the relevant transactions during the Track Record Period, our Directors believe that such transactions will not affect the operational independence of our Group.

Based on the above, our Directors believe that our business is operationally independent of our Controlling Shareholder.

Financial Independence

We have adopted our own independent internal control and financial management systems and we also have an independent accounting and finance department responsible for discharging relevant financial and treasury function with relevant finance personnel. We make financial decisions and determine our use of funds according to our own business needs. We have adequate internal resources and a strong credit profile to support our daily operation. Moreover, our Board has established the Audit Committee to provide independent oversight to, among others, our accounting and financial reporting processes.

We open and manage our bank accounts independently, and have not shared any bank account with our Controlling Shareholder or his close associates. We are also capable of obtaining financing from third parties, if necessary, without reliance on our Controlling Shareholder.

In October 2022, we conducted public issuance of 2022 Convertible Bonds, which were listed on the Main Board of the Shenzhen Stock Exchange under the bond code 127073 on October 27, 2022. Existing holders of ordinary A Shares as at the close of market on September 22, 2022 were granted the preferential right to subscribe for the 2022 Convertible Bonds, and Mr. Xu subscribed for the 2022 Convertible Bonds with underlying principal amounts of RMB1,237,573,100 as part of his personal financial investment strategy. Mr. Xu had disposed of all the 2022 Convertible Bonds he held in November 2025 through the Shenzhen Stock Exchange's trading system, and the 2022 Convertible Bonds were delisted from the Shenzhen Stock Exchange on December 11, 2025. See "History and Corporate Structure — Major Shareholding Changes of Our Company — Issuance of 2022 Convertible Bonds" for details.

Our Directors are of the view that Mr. Xu's holding of the 2022 Convertible Bonds during the Track Record Period did not and would not affect our financial independence from our Controlling Shareholder, for the following reasons:

(i) *strong financial position and sufficient liquidity*: during the Track Record Period, we maintained a strong financial position with sufficient liquid assets to meet our financial needs, supported by our Group's steady cash flow and level of liquid assets, providing liquidity and financial security to operate our business independently; and

(ii) *independent ability to obtain sufficient financing*: we are capable of obtaining independent financing from external sources without reliance on our Controlling Shareholder: (a) we have been able to secure financing and obtain borrowings from independent financial institutions, and none of the guarantees or security for such borrowings was provided by our Controlling Shareholder; and (b) as a Shenzhen Stock Exchange listed company, we have demonstrated our ability to raise funds independently from public capital markets.

Save as disclosed above, no loan or guarantee has been provided by, or granted to, our Controlling Shareholder or his respective associates during the Track Record Period and as of the Latest Practicable Date. Notwithstanding the foregoing, we do not expect to rely on our Controlling Shareholder or any of his close associates for financing after the Listing as we expect that our working capital will be primarily funded by cash generated from our business operation, and external financing.

In light of the above, our Directors are of the view that we are able to maintain financial independence from our Controlling Shareholder.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of sound corporate governance in protection of our Shareholders' interests. Our Company will comply with the provisions of the Corporate Governance Code in Appendix C1 to the Listing Rules, which sets out principles of good corporate governance.

In order to further avoid potential conflicts of interest, we have implemented the following measures to strengthen the protection of our Shareholders' interests:

(i) as part of our preparation for the [**REDACTED**], we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provide that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her close associates have a material interest nor shall such Director be counted in the quorum present at the meeting;

(ii) where a Shareholders' meeting is to be held for considering proposed transactions in which our Controlling Shareholder or any of his close associates has a material interest, our Controlling Shareholder will abstain from voting on the relevant resolutions;

(iii) our Company has established internal control mechanisms to identify connected transactions. Upon Listing, if our Company enters into connected transactions with our Controlling Shareholder or any of his associates, our Company will comply with the applicable requirements under the Listing Rules;

(iv) we are committed that our Board shall include a balanced composition of executive Directors and independent non-executive Directors. We have appointed four independent non-executive Directors, and we believe our independent non-executive Directors: (a) possess sufficient experience; (b) are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgement; and (c) will be able to provide an impartial and external opinion to protect the interests of our Shareholders as a whole;

(v) our independent non-executive Directors will continuously review the compliance and enforcement of the undertakings by Mr. Xu under the Non-compete Undertakings. Our Controlling Shareholder will undertake to provide all information necessary, including all relevant financial, operational, and market information and any other necessary information as required by our independent non-executive Directors for such review;

(vi) in the event that our independent non-executive Directors are requested to review any conflict of interests circumstances between our Group, on one hand, and our Controlling Shareholder and/or our Directors, on the other hand, our Controlling Shareholder and/or our Directors shall provide our independent non-executive Directors with all necessary information for consideration and our independent non-executive Directors can seek advice from independent advisers at the cost of our Company where necessary; and

(vii) we have appointed Somerley Capital Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws in Hong Kong and the Hong Kong Listing Rules, including various requirements relating to directors' duties and corporate governance, upon Listing.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between our Company and our Controlling Shareholder, and to protect our minority Shareholders' interests after the Listing.