
CONNECTED TRANSACTIONS

OVERVIEW

During the Track Record Period, we had entered into certain related party transactions, details of which are set out in note 38 to the accountant’s report as set out in Appendix I to this document. Several transactions are expected to continue after the [REDACTED] and shall constitute continuing connected transactions (as defined under Chapter 14A of the Listing Rules) of our Company upon the [REDACTED].

BACKGROUND OF THE RELEVANT CONNECTED PERSONS AND RELATED PARTY

Shuangliang Eco-Energy

Shuangliang Eco-Energy is a joint stock limited liability company incorporated in the PRC and listed on the Shanghai Stock Exchange (stock code: 600481.SH), which is principally engaged in the manufacturing and sales of products of (i) energy-saving and water-saving systems; and (ii) new energy systems (新能源系統). As at the Latest Practicable Date, the equity interest of Shuangliang Eco-Energy was held (i) as to approximately 17.61% by Shuangliang Group Co.; (ii) as to approximately 9.00% by Shuangliang Technology; (iii) as to approximately 15.53% by Shanghai Tongsheng LP; (iv) as to approximately 1.04% by Jiangsu Lichuang; (v) as to approximately 0.78% by Mr. Miao Shuangda (繆雙大先生); and (vi) as to approximately 0.52% by Jiangsu Chengli Investment Consulting Co., Ltd., a subsidiary of Shuangliang Group Co.. Mr. Miao Shuangda (one of our Controlling Shareholders) and his associates collectively hold (i) approximately 68% of the registered capital in Shuangliang Group Co., (ii) approximately 65% of the registered capital in Shuangliang Technology, (iii) approximately 65% of the registered capital in Jiangsu Lichuang, and (iv) approximately 68.5% of the interest in Shanghai Tongsheng LP. Each of Shuangliang Group Co., Shuangliang Technology and Jiangsu Lichuang is therefore a connected person of our Company. The general partner of Shanghai Tongsheng LP is Shuangliang Technology who has full power (i) to execute the business of Shanghai Tongsheng LP, and (ii) to represent Shanghai Tongsheng LP for its external affairs. Therefore, Shanghai Tongsheng LP would also be regarded as a connected person of our Company. Mr. Miao Shuangda (one of our Controlling Shareholders) and his associates, both directly and indirectly and individually and collectively, hold approximately 44.48% equity interest in Shuangliang Eco-Energy. Therefore, Shuangliang Eco-Energy is a connected person of our Company under Chapter 14A of the Listing Rules. During the Track Record Period, Shuangliang Eco-Energy Group had mainly supplied us with equipment for heat service.

CONNECTED TRANSACTIONS


Shuangliang New Energy Equipment

Shuangliang New Energy Equipment is a limited liability company established in the PRC which is principally engaged in manufacturing and sales of new energy equipment. Its registered capital is held as to 15% by Jiangsu Lichuang (one of our Controlling Shareholders) and 85% by Shuangliang Eco-Energy, respectively. As a subsidiary of Shuangliang Eco-Energy (which is a connected person of our Company as mentioned above), Shuangliang New Energy Equipment is a connected person of our Company under Chapter 14A of the Listing Rules. Shuangliang New Energy Equipment had mainly supplied us with equipment for heat service during the Track Record Period.

Shuangliang Boiler

Shuangliang Boiler is a limited liability company established in the PRC which is principally engaged in manufacturing and sales of boilers. Its registered capital is held as to 66.67% by Shuangliang Technology (one of our Controlling Shareholders). As a subsidiary of Shuangliang Technology, Shuangliang Boiler is a connected person of our Company under Chapter 14A of the Listing Rules. During the Track Record Period, Shuangliang Boiler had supplied us with equipment for heat service.

Shuangliang Group Co.

Shuangliang Group Co. is a limited liability company established in the PRC which is principally engaged in manufacturing and sales of devices, equipment and accessories. Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders) and his associates collectively hold an aggregate of approximately 68% of the registered capital in Shuangliang Group Co.. Therefore, Shuangliang Group Co. is an associate of Mr. Miao Shuangda and hence a connected person of our Company under Chapter 14A of the Listing Rules. During the Track Record Period, Shuangliang Group Co. had authorised us to use one of its trademarks (). The authorisation period ended on 31 December 2021 and has not been extended. Therefore, with the exception to the trademark or logo shown on the machinery or devices our Group procured from Shuangliang Group Co. and/or its associated companies, our Group has ceased to use Shuangliang Group Co.'s trademark as at the Latest Practicable Date and has no intention to use such trademark in the future.

Jiangyin Hotel

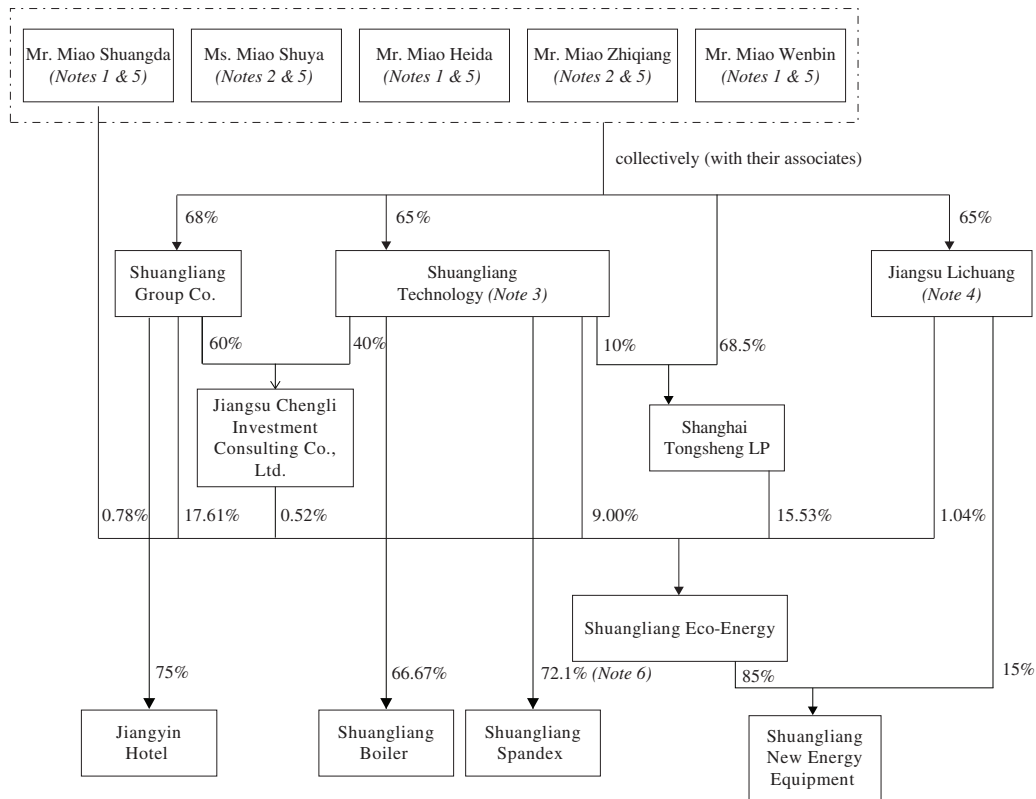
Jiangyin Hotel is a limited liability company established in the PRC which is principally engaged in accommodation business. Its registered capital is held as to 75% by Shuangliang Group Co. (which is a connected person of our Company as mentioned above), and thus Jiangyin Hotel is a subsidiary of Shuangliang Group Co. and hence a connected person of our Company under Chapter 14A of the Listing Rules. During the Track Record Period, Jiangyin Hotel had provided us services of accommodation, catering, reception and conference organising, and leased premises to us.

CONNECTED TRANSACTIONS

Shuangliang Spandex

Shuangliang Spandex is a limited liability company established in the PRC which is principally engaged in the production of differentiated chemical fibres and spandex high-tech chemical fibres. Its registered capital is held as to 6.4% by Shuangliang Technology, 65.7% by Jiangyin Youli Investment Management Company Limited* (江陰友利投資管理有限公司) which is a wholly-owned subsidiary of Shuangliang Technology and 27.9% by Kinsale Technology Limited which is a company incorporated in the British Virgin Islands with limited liability and a connected person of our Company. Shuangliang Spandex is an associate of Shuangliang Technology and hence a connected person of our Company. During the Track Record Period, Shuangliang Spandex has leased office premises to us.

The following diagram shows the shareholding relationship amongst the relevant connected persons of our Company as at the Latest Practicable Date:



Notes:

1. Mr. Miao Shuangda (繆雙大先生) and Mr. Miao Heida (繆黑大先生) are siblings and uncle of their respective brothers' children. Mr. Miao Shuangda is the father of Mr. Miao Wenbin (繆文彬先生).
2. Mr. Miao Zhiqiang (繆志強先生) and Ms. Miao Shuya (繆舒涯女士) are cousins of Mr. Miao Wenbin (繆文彬先生).
3. Shuangliang Technology is a Controlling Shareholder and the general partner of Shanghai Tongsheng LP.
4. Jiangsu Lichuang is a Controlling Shareholder.
5. Each of Mr. Miao Shuangda (繆雙大先生), Mr. Miao Wenbin (繆文彬先生), Ms. Miao Shuya (繆舒涯女士), Mr. Miao Heida (繆黑大先生), and Mr. Miao Zhiqiang (繆志強先生) is a Controlling Shareholder.
6. Shuangliang Technology directly holds 6.4% of registered capital of Shuangliang Spandex and indirectly holds 65.7% of the same through its wholly-owned subsidiary.

CONNECTED TRANSACTIONS

Sinopec New Star

Sinopec New Star is a limited liability company established in the PRC which is principally engaged in the development, construction and operation of heating, cooling and power generation projects, exploration and utilisation of renewable energy, and provision of heat services. Its registered capital is held as to 51% by Sinopec Green Energy Geothermal Development Co., Limited* (中石化綠源地熱能開發有限公司), 40% by Taiyuan Renewable Energy and 9% by Shanxi Taiyangneng Solar Thermal Power Generation Co., Limited* (山西鈦陽能光熱發電有限公司). Sinopec New Star is indirectly held as to 40% by our Company and hence an associate of our Company. During the Track Record Period, we entered into finance lease agreements with Sinopec New Star, as well as purchased certain equipment from Sinopec New Star, having considered (i) our previous cooperative relationship with Sinopec New Star; and (ii) Sinopec New Star’s understanding of our procurement requirement, such as the specifications of products purchased by us.

RELATED PARTY TRANSACTIONS BEFORE [REDACTED]

Lease Agreements

On 1 January 2022, our Company entered into a lease agreement with Shuangliang Spandex, pursuant to which Shuangliang Spandex agreed to lease the office premises to our Company (the “**Lease Agreement 1**”, the terms of which were modified pursuant to a supplemental agreement dated 27 February 2023).

On 1 January 2023, our Company entered into a lease agreement with Jiangyin Hotel, pursuant to which Jiangyin Hotel agreed to lease the office premises to our Company (the “**Lease Agreement 2**”, together with Lease Agreement 1, the “**Lease Agreements**”).

A summary of the Lease Agreements is set out as follows:

No.	Location	Landlord	Tenant	Lease period	Usage	Approximate GFA	Rental <i>(RMB)</i>
1.	Room 202, 2/F, No. 15 Shuangliang Road, Ligang Street, Jiangyin, Jiangsu Province	Shuangliang Spandex	Our Company	From 1 January 2022 to 31 December 2024	Office	212.5 sq.m.	10,000 per year
2.	7/F, Jiangyin International Hotel, No. 299 Chengjiang West Road, Jiangyin, Jiangsu Province	Jiangyin Hotel	Our Company	From 1 January 2023 to 31 December 2025	Office	50 sq.m.	70,000 per year

Subject to compliance with the Listing Rules, our Company will negotiate with Shuangliang Spandex and Jiangyin Hotel before the respective expiry of each of the Lease Agreements on renewing the Lease Agreements.

CONNECTED TRANSACTIONS

Listing Rules Implications

Upon application of IFRS 16, we recognised right-of-use assets in relation to the fixed term leases in the form of an asset (representing the right to use the underlying assets during the lease term) and a liability (for the obligation to make lease payment). Each of the Lease Agreements is subject to a fixed term and is regarded as an one-off connected acquisition of capital asset under the Listing Rules. As the Lease Agreements were entered into prior to the [REDACTED] and the transactions thereunder are one-off in nature, the transactions (in relation to the rental) under the Lease Agreements will not be subject to any of the reporting, announcement, annual review and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. In the event that there are any material changes to the terms and conditions of the Lease Agreements, we shall comply with Chapter 14A of the Listing Rules in respect of such agreement as and when appropriate, including, where required, seeking independent shareholders’ approval prior to effectuating such changes.

Finance Lease Agreement with Sinopec New Star as Lessor

On 1 March 2020, Taiyuan Renewable Energy (as lessee) entered into a finance lease agreement with Sinopec New Star (as lessor) in respect of lease of the medium-deep geothermal wells (the “**Finance Lease Agreement 1**”).

Pursuant to the Finance Lease Agreement 1, Sinopec New Star agreed to lease the medium-deep geothermal wells (“**Geothermal Wells**”) for the Shanxi Demonstration Zone Project for a period of ten years, commencing from 1 March 2020 to 28 February 2030. The annual rental fee is approximately RMB1.5 million payable by Taiyuan Renewable Energy quarterly. Upon the expiry of the lease period, Taiyuan Renewable Energy has the option to acquire the Geothermal Wells. The parties have agreed that Taiyuan Renewable Energy may acquire the Geothermal wells before the expiry of the lease period, and the transfer price shall be determined on the basis of the value of the Geothermal Wells as determined by an independent auditor/valuer on the audit/valuation reference date agreed by the parties (the “**Carrying Value of the Geothermal Wells**”) less the rent paid by Taiyuan Renewable Energy during the lease period. The Carrying Value of the Geothermal Wells shall be not less than the book value of the Geothermal Wells of approximately RMB14.8 million as at the date of the Finance Lease Agreement 1. The Finance Lease Agreement 1 will be renewed after the expiry of the lease period if Taiyuan Renewable Energy chooses not to acquire the Geothermal Wells upon the expiry of the lease period and the terms will be negotiated by the parties.

Finance Lease Agreements with Sinopec New Star as Lessee

On 1 March 2020, Taiyuan Renewable Energy (as lessor) entered into a finance lease agreement with Sinopec New Star (as lessee) in respect of lease of our unused primary distribution pipelines (the “**Finance Lease Agreement 2**”).

CONNECTED TRANSACTIONS

Pursuant to the Finance Lease Agreement 2, Taiyuan Renewable Energy agreed to lease our unused primary distribution pipelines of approximately 36.5 km (the “**Distribution Pipelines**”) to Sinopec New Star for a period of ten years, commencing from 1 March 2020 to 28 February 2030. The annual rental fee is approximately RMB3.9 million payable by Sinopec New Star quarterly. Upon the expiry of the lease period, Sinopec New Star has the option to acquire the Distribution Pipelines. The parties have agreed that Sinopec New Star may acquire the Distribution Pipelines before the expiry of the lease period, and the transfer price shall be determined on the basis of the value of the Distribution Pipelines as determined by an independent auditor/valuer on the audit/valuation reference date agreed by the parties (the “**Carrying Value of the Distribution Pipelines**”) less the rent paid by Sinopec New Star during the lease period. The Carrying Value of the Distribution Pipelines shall be not less than the book value of the Distribution Pipelines of approximately RMB38.5 million as at the date of the Finance Lease Agreement 2. The parties agree to renew Finance Lease Agreement 2 after the expiry of the lease period if Sinopec New Star chooses not to acquire the Distribution Pipelines upon the expiry of the lease period and the terms will be negotiated by the parties.

Purchase of equipment from Sinopec New Star

During the Track Record Period, our Group has purchased certain equipment from Sinopec New Star for the construction of our heat service facilities, which is in our ordinary and usual course of business and on normal commercial terms. The respective purchase price shall be determined between our Group on one hand, and Sinopec New Star on the other hand, with reference to the prevailing market price for the scale and purchase of similar equipment. The aggregate transaction amounts of such purchases from Sinopec New Star were approximately RMB2.8 million, RMB2.5 million and RMB3.4 million for the years ended 31 December 2020, 2021 and 2022, respectively.

Listing Rules Implications

As Sinopec New Star is indirectly held as to 40% by our Company and hence an associate of our Company, Sinopec New Star will not become a connected person upon the [REDACTED]. The transactions under the Finance Lease Agreement 1, the Finance Lease Agreement 2 and the purchase of equipment with Sinopec New Star will not be subject to any of the reporting, announcement, annual review and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. In the event that there are any material changes to the terms and conditions of the transactions with Sinopec New Star or the shareholding percentage held by our Company in Sinopec New Star, we shall comply with Chapter 14A of the Listing Rules in respect of connected transaction as and when appropriate.

CONNECTED TRANSACTIONS

FULLY EXEMPT CONTINUING CONNECTED TRANSACTION

Accommodation, catering, reception and conference organising services provided by Jiangyin Hotel

Principal terms

Our Group has been procuring consumer services, including but not limited to accommodation, catering, reception and conference organising services (the “**Comprehensive Services**”), from Jiangyin Hotel since 2010, which are in our ordinary and usual course of business and on normal commercial terms or better than those available from Independent Third Parties. The respective service fees to be charged shall be determined after arm’s length negotiations between our Group on one hand, and Jiangyin Hotel on the other hand, with reference to (i) the prevailing market price for the provision of similar Comprehensive Services; and (ii) all costs incurred for the provision of such services.

Reasons for entering into the Comprehensive Services transactions

Taking into account that (i) our Company has over 10 years of business relationship with Jiangyin Hotel; (ii) the quality of Comprehensive Services provided by Jiangyin Hotel has been satisfactory to us; and (iii) the proximity of the relevant facilities of Jiangyin Hotel with our Company, we expect that we will continue to engage Jiangyin Hotel for such Comprehensive Services after the [REDACTED] from time to time on an as-needed basis, which will constitute continuing connected transactions for us under Chapter 14A of the Listing Rules.

Historical amounts

Type	Connected person	Nature of transactions	For the year ended 31 December		
			2020	2021	2022
			RMB’000	RMB’000	RMB’000
Fully exempt continuing connected transaction	Jiangyin Hotel	• Accommodation, catering, reception and conference organising services	641	642	1,107

Annual caps and basis

Our Directors estimate that the annual caps for the Comprehensive Services for the years ending 31 December 2023, 2024 and 2025 will not exceed RMB1.5 million, RMB1.5 million and RMB1.5 million, respectively.

CONNECTED TRANSACTIONS

Implications under the Listing Rules for the Comprehensive Services transactions

The expected annual caps for the Comprehensive Services for each of the years ending 31 December 2023, 2024 and 2025 is less than HK\$3.0 million and the relevant applicable percentage ratios (other than the profit ratio) with respect to the Comprehensive Services transactions contemplated, are expected to be less than 5% on an annual basis. Therefore the provision of Comprehensive Services by Jiangyin Hotel constitute de minimis transactions under Rule 14A.76(1) of the Listing Rules and are therefore fully exempt from the independent shareholders’ approval, reporting, annual review, announcement and all disclosure requirements under Chapter 14A of the Listing Rules.

PARTIALLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

Master Agreements for (a) purchase of heat services-related equipment, devices and materials; and (b) procurement of add-on services in relation to heat services-related equipment, devices and materials

Principal terms

On 29 May 2023, our Company entered into (i) Annual Master Supply and Service Agreement for the year ending 31 December 2023 (the “**Master Agreement 1**”) with Shuangliang Eco-Energy (on its own and on behalf of its subsidiaries); and (ii) Master Supply Agreement for the three years ending 31 December 2025 with Shuangliang Boiler (the “**Master Agreement 2**”, together with the Master Agreement 1 referred hereinafter to as collectively the “**Master Agreements**”).

Pursuant to the Master Agreement 1, our Company shall purchase heat services-related equipment, devices and materials (with related supporting services) and/or add-on services in relation to heat services-related equipment, devices and materials (such as equipment modification, maintenance and safety monitoring). The Master Agreement 1 with a term ending 31 December 2023 has been approved by the independent shareholders of Shuangliang Eco-Energy. The Master Agreement 1 shall commence from the [REDACTED] and will expire on 31 December 2023. Our Company will duly consider the need of procurement of heat services-related equipment, devices and materials (with related supporting services) and related add-on services and enter into a new agreement upon expiry of the Master Agreement 1.

Pursuant to the Master Agreement 2, our Company shall purchase heat services-related equipment, devices and materials (with related supporting services). The Master Agreement 2 shall commence from the [REDACTED] and will expire on 31 December 2025.

CONNECTED TRANSACTIONS

The following sets out the principal terms of the Master Agreements:

We will make purchase order or service request with Shuangliang Eco-Energy Group or Shuangliang Boiler from time to time on an as-needed basis when we need to purchase any heat services-related equipment, devices and materials (with related supporting services) and/or add-on services in relation to heat services-related equipment, devices and materials. The purchase price for each individual purchase order and/or the service fee for each request shall be determined after arm's length negotiations between Shuangliang Eco-Energy Group or Shuangliang Boiler and us from time to time with reference to the then prevailing market price, quality and logistics capacity of similar products or services in the market by way of independent third-party quotation.

Since the Master Agreements are framework agreements, the Master Agreements did not specify any repayment terms. According to our dealings with Shuangliang Eco-Energy Group and Shuangliang Boiler during the Track Record Period, we are usually required to settle the relevant fees by instalments in accordance with the terms of each agreement. The actual payment terms should be determined on a case by case basis.

Reasons for entering into the Master Agreements

For Master Agreement 1

For conducting our business, we procured heat service-related equipment, such as pipes, heat exchangers and heat pumps. Shuangliang Eco-Energy Group has supplied heat services-related equipment, devices and materials (with related supporting services) and provided add-on services in relation to heat services-related equipment, devices and materials to our Group since 2014.

Taking into account (i) Shuangliang Eco-Energy is a company established in 1995 and listed on the Shanghai Stock Exchange and has been supplying heat service-related equipment for some time; (ii) Shuangliang Eco-Energy Group is capable of supplying equipment, devices, materials and services required by our Group; (iii) Shuangliang Eco-Energy Group was able to meet our requirements on a timely basis with a price that we considered relatively competitive, our Directors consider that entering into the Master Agreement 1 with Shuangliang Eco-Energy (on its own and on behalf of its subsidiaries) would allow our Group to maintain a stable supply of heat services-related equipment, devices and materials (with related supporting services) as well as related add-on services required for our business.

Further, our Directors are of the opinion that the terms of the Master Agreement 1 are fair and reasonable, on normal commercial terms or better and in the interest of our Group and the Shareholders as a whole.

CONNECTED TRANSACTIONS

For Master Agreement 2

For conducting our business, we procured boilers as one of the heat service-related equipment. Shuangliang Boiler has been supplying heat services-related equipment, devices and materials (with related supporting services) to our Group during the Track Record Period.

Taking into account that (i) Shuangliang Boiler is capable of supplying certain equipment, devices, materials and providing related supporting services required by our Group on a timely basis with a competitive price, satisfactory product quality and after-sales service offerings; and (ii) Shuangliang Boiler has a track record in going through our supplier selection processes and supplying heat services-related equipment including boilers, our Directors consider that entering into the Master Agreement 2 with Shuangliang Boiler would allow our Group to maintain a stable supply of heat services-related equipment, devices and materials.

Further, our Directors are of the opinion that the terms of the Master Agreement 2 are fair and reasonable, on normal commercial terms or better and in the interest of our Group and the Shareholders as a whole.

Historical amounts

For Master Agreement 1

In respect of Shuangliang Eco-Energy, during the Track Record Period, Hulunbuir Shuangliang, Taiyuan Renewable Energy, Gansu Shuangliang and Lanzhou Shuangliang had purchased heat services-related equipment, devices and materials (with related supporting services) or received add-on services in relation to heat services-related equipment, devices and materials from Shuangliang Eco-Energy and its subsidiary, namely Shuangliang New Energy Equipment.

For the three years ended 31 December 2020, 2021 and 2022, the transaction amounts with Shuangliang Eco-Energy Group were as follows:

Connected person	Nature of transactions	For the year ended 31 December		
		2020	2021	2022
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Shuangliang Eco-Energy and Shuangliang New Energy Equipment	<ul style="list-style-type: none"> • Purchase of heat services-related equipment, devices and material (with related supporting services) • Add-on services in relation to heat services-related equipment, devices and material 	30,103	11,743	11,683
		170	148	2,231

CONNECTED TRANSACTIONS

During the Track Record Period, the changes in our transaction amounts with Shuangliang Eco-Energy Group were in line with the varying procurement demand for each of our projects. On 20 March 2019 and 5 July 2019, our Group entered into a technology agreement and a commercial agreement with Shuangliang Eco-Energy in respect of Phase I construction for the flue gas waste heat recovery and utilisation project* (煙氣餘熱回收利用項目一期工程) of the Lanzhou New Area Project (the “**Lanzhou New Area Project Agreement**”), under which Shuangliang Eco-Energy was responsible for the design, supply of various equipment, instruments and devices, construction and installation, delivery of the relevant documents and testing. Certain services and/or products under the Lanzhou New Area Project Agreement were received during the year ended 31 December 2020, representing approximately 40% of the total transaction amount for the year ended 31 December 2020. In addition to the Lanzhou New Area Project Agreement, Shuozhou Project and Taiyuan Project also procured from Shuangliang Eco-Energy Group during the year ended 31 December 2020. For the year ended 31 December 2021, there was no service and/or product received under the Lanzhou New Area Project Agreement, and our procurement from Shuangliang Eco-Energy Group was mainly made for Taiyuan Project and Shanxi Demonstration Zone Project for which the procurement demand was lower as compared to that for the year ended 31 December 2020. Therefore, the transaction amount was lower as compared to the year ended 31 December 2020. For the year ended 31 December 2022, our procurement of heat services-related equipment, devices and materials from Shuangliang Eco-Energy Group was mainly made for Taiyuan Project, and the transaction amount was similar to that for the year ended 31 December 2021.

There was an increase for the transaction amount for add-on services for the year ended 31 December 2022 as compared to the years ended 31 December 2020 and 2021, as we entered into a new service agreement in respect of the maintenance and repair of the Lithium bromide absorption heat pumps unit for Shuozhou Project in 2022.

For Master Agreement 2

In respect of Shuangliang Boiler, during the Track Record Period, Lanzhou Shuangliang had purchased heat services-related equipment, devices and materials (with related supporting services) from Shuangliang Boiler.

For the three years ended 31 December 2020, 2021 and 2022, the transaction amounts with Shuangliang Boiler were as follows:

Connected person	Nature of transactions	For the year ended 31 December		
		2020	2021	2022
		RMB'000	RMB'000	RMB'000
Shuangliang Boiler	<ul style="list-style-type: none"> • Purchase of heat services-related equipment and devices (with related supporting services) (i.e. boilers) 	419	2,205	2,177

CONNECTED TRANSACTIONS

During the Track Record Period, the changes in the transaction amounts with Shuangliang Boiler for the three years ended 31 December 2020, 2021 and 2022 were basically in line with the numbers of boilers purchased during the same period. The boilers purchased from Shuangliang Boiler were mainly used as back-up heat services in the event of heat supply shortage, unexpected incidents, sudden demand, suspension or disruption. For the year ended 31 December 2020, there was only one boiler purchased from Shuangliang Boiler for the Shanxi Demonstration Zone Project. The increase in our transaction amount with Shuangliang Boiler for the year ended 31 December 2021 was mainly due to the purchase of five boilers for the Taiyuan Project and Shanxi Demonstration Zone Project. Our transaction amount with Shuangliang Boiler for the year ended 31 December 2022 remained stable as compared with the transaction amount for the year ended 31 December 2021, as five boilers were purchased for the Taiyuan Project during 2022.

Annual caps and basis

For Master Agreement 1

Our Directors estimate that under the Master Agreement 1 for the year ending 31 December 2023,

- (i) the transaction amount between our Group and Shuangliang Eco-Energy Group for the purchase of heat services-related equipment, devices and materials (with related supporting services) will not exceed RMB10.5 million;
- (ii) the transaction amount for the add-on services in relation to heat services-related equipment, devices and materials will not exceed RMB200,000.

In arriving at the aforesaid annual caps, our Directors have considered (i) the existing contracts entered into between our Group and Shuangliang Eco-Energy Group in respect of procurement of four heat pumps for the Taiyuan Project; (ii) the expected procurement of seven sets of fully manufactured skid-mounted heat exchange unit (成品撬裝換熱機組) for the Hulunbuir Project, one heat pump for the Taiyuan Project and four heat pumps for the Shanxi Demonstration Zone Project for the year ending 31 December 2023; (iii) the historical transaction amounts between our Group and Shuangliang Eco-Energy Group for the years ended 31 December 2021 and 2022; and (iv) the expected demand for heat services-related equipment, devices and materials (with related supporting services) and/or add-on services in relation to heat service-related equipment, devices and materials with reference to the prevailing market price for similar products/services in the market.

For Master Agreement 2

Our Directors estimate that under the Master Agreement 2, the transaction amount between our Group and Shuangliang Boiler for the purchase of heat service-related equipment, devices and materials with related supporting services will not exceed RMB4.0 million, RMB4.5 million and RMB4.7 million for the years ending 31 December 2023, 2024 and 2025, respectively.

CONNECTED TRANSACTIONS

In arriving at the aforesaid annual cap for the year ending 31 December 2023, our Directors have considered (i) the expected procurement of not more than four sets of boilers for the Shanxi Demonstration Zone Project and six sets of boilers for the Taiyuan Project for the year ending 31 December 2023; (ii) the expected average procurement cost for boiler at approximately RMB400,000 per unit; and (iii) the transaction amount in relation to the purchase of heat services-related equipment, devices and materials (with related supporting services) from Shuangliang Boiler for the year ended 31 December 2022. Our Group will also procure related materials and services from Shuangliang Boiler from time to time.

The annual caps for the years ending 31 December 2024 and 2025 are estimated with reference to (i) the annual cap for the year ending 31 December 2023; and (ii) the estimated increase in the actual heat service area.

Implications under the Listing Rules for the Master Agreements

Given that (i) both Shuangliang Eco-Energy and Shuangliang Boiler (a subsidiary of Shuangliang Technology) are controlled by Mr. Miao Shuangda (繆雙大先生); (ii) the terms of each of the Master Agreements are substantially identical, except for their respective contracting parties, annual caps and terms of duration; and (iii) both of the Master Agreements set out the purchase of heat service-related equipment, devices and materials with related supporting services, our Directors are of the view that, when calculating the relevant applicable ratios, all transaction amounts of each of the Master Agreements shall be aggregated.

The aggregated annual caps for the years ending on 31 December 2023, 2024 and 2025 under the Master Agreements are RMB14.7 million, RMB4.5 million and RMB4.7 million, respectively. The relevant applicable percentage ratios (other than the profit ratio) with respect to the transactions contemplated under the Master Agreements, as aggregated, are expected to exceed 0.1% but less than 5% on an annual basis. Therefore the transactions under the Master Agreements are subject to the reporting and announcement requirements, but are exempted from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

WAIVER APPLICATION FOR PARTIALLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

As the continuing connected transactions under “Partially exempt continuing connected transactions” in this section are expected to continue in the ordinary and usual course of our business on a continuing and recurring basis over a period of time and have been fully disclosed in this section, our Directors consider that it would add administrative costs to our Company if these transactions are subject to strict compliance with the announcement requirements set out under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted] us, a waiver of the above partially exempt continuing connected transactions to be exempted from strict compliance with the announcement requirements during the subsistence of the Master Agreements pursuant to Rule 14A.105 of the Listing Rules, subject to the following conditions:

- (i) the respective proposed annual caps for the continuing connected transactions under the Master Agreements as stated above will not be exceeded;
- (ii) we are still subject to the reporting requirements pursuant to Rules 14A.49 and 14A.71 of the Listing Rules and shall disclose the details of the continuing connected transactions under the Master Agreements in the annual reports for the three financial years ending 31 December 2025;
- (iii) if any of the material terms of the continuing connected transactions under the Master Agreements are altered and/or if our Group enters into any new continuing connected transaction with (i) Shuangliang Eco-Energy Group; and (ii) Shuangliang Boiler, in the future resulting in the aggregate annual amount paid or payable by our Group to them during the subsistence of the Master Agreements exceeding the proposed annual caps as stated above, our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules;
- (iv) upon expiry of the waiver, or upon the expiry of the respective term of the Master Agreements, our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules; and
- (v) in the event of any further amendments to the Listing Rules which impose more stringent requirements than those as of the date of this submission on the continuing connected transactions, our Company will take appropriate steps to ensure compliance with such requirement within a reasonable time.

The transactions under the Master Agreements will be reviewed by the auditors and our independent non-executive Directors in accordance with Chapter 14A of the Listing Rules on an annual basis to ensure that the purchases or services procured will be conducted on normal commercial terms or better and not prejudicial to our Group and the Shareholders as a whole.

DIRECTORS' VIEW

Our Directors, including the independent non-executive Directors, are of the view that the continuing connected transactions disclosed in this section, which have been and will be entered into in the ordinary and usual course of business of our Group, are fair and reasonable, on normal commercial terms or better, and in the interests of our Company and the Shareholders as a whole, and that the proposed annual caps for the partially exempt continuing connected transactions described in this section are fair and reasonable and in the interest of our Company and the Shareholders as a whole.

CONNECTED TRANSACTIONS

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor, having reviewed the relevant information and historical figures (where applicable) relating to the continuing connected transactions as disclosed above, is of the view that (i) the above continuing connected transactions will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms or better, and are fair and reasonable and in the interests of our Company and the Shareholders as a whole; and (ii) the proposed annual caps for these transactions are fair and reasonable and in the interests of our Company and the Shareholders as a whole.