
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

BACKGROUND OF OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Shuangliang Technology and Jiangsu Lichuang will hold approximately [REDACTED]% and [REDACTED]% of the registered capital of our Company, respectively. As at the Latest Practicable Date, Mr. Miao Shuangda (繆雙大先生), Mr. Miao Wenbin (繆文彬先生), Mr. Miao Zhiqiang (繆志強先生), Ms. Miao Shuya (繆舒涯女士), Mr. Miao Heida (繆黑大先生), Mr. Jiang Rongfang (江榮方先生), Mr. Ma Peilin (馬培林先生), and Mr. Ma Fulin (馬福林先生) (together the “**Individual Shareholders**”) were the legal and beneficial owners of the entire issued share capital of both Shuangliang Technology and Jiangsu Lichuang. Since the Individual Shareholders have decided to restrict their ability to exercise direct control over our Company by holding their equity interests through Shuangliang Technology and Jiangsu Lichuang, all of Shuangliang Technology, Jiangsu Lichuang and the Individual Shareholders will be regarded as a group of our Controlling Shareholders under the Listing Rules.

Shuangliang Technology and Jiangsu Lichuang are investment holding companies, which were established in the PRC on 18 December 1997 and 24 December 1997, respectively. As at the Latest Practicable Date, our Controlling Shareholders collectively held (i) approximately 82% of the registered capital of Shuangliang Group Co.; (ii) directly or indirectly through Shanghai Tongsheng LP and other corporate vehicles, approximately 44.48% of the total issued shares of Shuangliang Eco-Energy, the shares of which are listed on Shanghai Stock Exchange; (iii) approximately 66.67% of the registered capital of Shuangliang Boiler; and (iv) certain equity interest in other companies which engage in the businesses in the industries of water environment engineering construction and water ecology protection, cooling machines, biochemistry and biology and fertilisers, packaging film, spandex, hotel, and development, design and construction intelligent systems and cloud computing.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are of the view that our Group is capable of independently carrying on our business from, and does not place undue reliance on, our Controlling Shareholders upon the [REDACTED]:

Clear delineation of business

Our Group is principally engaged in the provision of heat services to our residential and non-residential heat services customers under our concession rights. In addition to our provision of heat services, which is considered as a public utility business, we also provide heat-related (i) engineering construction services; and (ii) EMC services. Our Directors consider heat services and heat-related engineering construction services as our core businesses. Our core businesses (namely heat services and heat-related engineering construction services) accounted for approximately 97.0%, 98.0% and 97.0% of our total revenue for the years ended 31 December 2020, 2021 and 2022, respectively.

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The businesses of our Controlling Shareholders (other than our Group) are principally conducted by (i) Shuangliang Group Co. and its subsidiaries (“**Shuangliang Group Co. Group**”); (ii) Shuangliang Eco-Energy Group; (iii) Shuangliang Boiler; and other companies directly or indirectly owned by our Controlling Shareholders and which are not the subsidiaries of Shuangliang Group Co., Shuangliang Eco-Energy and Shuangliang Boiler (“**Other Companies**”). The table below sets out the businesses of our Group and those of our Controlling Shareholders and companies (other than our Group) controlled by them.

	Our Group	Our Controlling Shareholders and companies (other than our Group) controlled by them			
		Shuangliang Group Co. Group	Shuangliang Eco- Energy Group	Shuangliang Boiler	Other Companies
Business segments	<p>Core business</p> <ul style="list-style-type: none"> • Provision of heat services to residential and non-residential heat service end-users • Heat-related engineering construction services <p>Others</p> <ul style="list-style-type: none"> • Heat-related EMC services • Sales of heat-related equipment 	<p>Core business</p> <ul style="list-style-type: none"> • Manufacturing, trading and sale of equipment of devices and accessories <p>Others</p> <ul style="list-style-type: none"> • Water environment engineering construction and water ecology protection • Cooling machines • Biochemistry, biology and fertilisers • Packaging film • Hotel services • Investment management 	<p>Core business</p> <ul style="list-style-type: none"> • Manufacturing and sale of products of (i) energy-saving and water-saving systems; and (ii) new energy systems (新能源系統) <p>Others</p> <ul style="list-style-type: none"> • EMC services in relation to conservation of electricity or water 	<p>Core business</p> <ul style="list-style-type: none"> • Manufacturing and sale of boilers 	<ul style="list-style-type: none"> • Investment management • Development, design and construction of intelligent systems and cloud computing • Engineering constructions services in relation to water environment protection and management • Spandex

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Our Directors are of the view that there is a clear delineation between these businesses conducted by such companies controlled by our Controlling Shareholders and those of our Group. The table below illustrates these businesses and reasons for such clear delineation of businesses.

Business	Conducted by	Reasons for clear delineation from the businesses of our Group
Manufacturing, trading and sale of equipment devices and accessories	(i) Shuangliang Group Co. Group (ii) Shuangliang Eco-Energy Group (for energy-saving and water-saving systems and new energy systems)	<ul style="list-style-type: none"> - Our heat services-related equipment sold only cover (i) semi-finished skid-mounted heat exchange unit (半成品撬裝換熱機組) and (ii) heat meters (熱力計量表) - Shuangliang Eco-Energy Group sells, amongst others, fully manufactured skid-mounted heat exchange unit (成品撬裝換熱機組), and does not manufacture or sell heat meters (熱力計量表) - Shuangliang Group Co. Group manufactures and sells (i) equipment, devices in relation to environment protection and (ii) equipment, devices and accessories in relation to environmental pollution prevention - Our Group does not carry out trading of equipment or devices
Manufacturing and sale of boilers	Shuangliang Boiler	Our Group does not manufacture or sell boilers
Cooling machines	Shuangliang Group Co. Group	Our Group does not manufacture or sell cooling machines
Biochemistry, biology and fertilisers	Shuangliang Group Co. Group	Our Group does not carry out biochemistry, biology and fertilisers business
Packaging film	Shuangliang Group Co. Group	Our Group does not manufacture or sell packaging film
Hotel services	Shuangliang Group Co. Group	Our Group does not provide hotel services

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Business	Conducted by	Reasons for clear delineation from the businesses of our Group
Investment management	(i) Shuangliang Group Co. Group (ii) Jiangyin Youli Investment Management Company Limited* (江陰友利投資管理有限公司), being one of the Other Companies	Our Group does not carry out investment management business
EMC services	Shuangliang Eco-Energy Group	– Our EMC services are related to conservation of heat for thermal power plant – The EMC services conducted by Shuangliang Eco-Energy Group are related to conservation of electricity or water for commercial and industrial building
Engineering construction services	(i) Shuangliang Group Co. Group (ii) Jiangsu Shuangliang Environmental Technology Co., Limited* (江蘇雙良環境科技有限公司), being one of the Other Companies	– Our engineering construction services are related to heat services under our Concession Agreements – The engineering construction services conducted by Shuangliang Group Co. Group are related to water environment and water ecology protection – The engineering construction services conducted by Jiangsu Shuangliang Environmental Technology Co., Limited are related to water environment protection and management
Spandex	Shuangliang Spandex, being one of the Other Companies	Our Group does not manufacture or sell spandex
Development, design and construction of intelligent systems and cloud computing	Wuxi Hundun, being one of the Other Companies	Our Group does not carry out development, design and construction of intelligent systems and cloud computing business

Taking into account the aforementioned delineating reasons, our Directors are of the view that the businesses of our Controlling Shareholders and companies controlled by them (other than our Group) are clearly delineated and do not compete with the businesses of our Group.

As at the Latest Practicable Date, our Controlling Shareholders had confirmed that none of them and their respective close associates had any interest in any business which competes or is likely to compete, whether directly or indirectly, with our business which would require disclosure under Rule 8.10 of the Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Operational independence

We believe that we can operate independently from our Controlling Shareholders due to the following reasons:

- (a) all relevant qualifications and licences necessary to operate our businesses, including the grant of concession rights for exclusive provision of heat services in the relevant Concession Areas, are held by our Group, and we enjoy all the rights and benefits thereof;
- (b) we have sufficient capital, operations, assets, facilities and employees to operate and function our business independently from our Controlling Shareholders. We do not rely on our Controlling Shareholders for access to customers, because we have independent access to our customers. We are principally engaged in the provision of heat services to residential and non-residential heat service customers, and our non-residential heat service customers include property management companies, commercial operators, government institutions, education institutions, airports, train stations and hospitals. Our employees are independent from, and none of them are remunerated by, our Controlling Shareholders and their respective associates;
- (c) we also maintain a comprehensive set of internal control procedures for facilitating the effective operation of our business. With reference to the relevant laws, regulations and rules, we have developed sound corporate governance practice and have adopted our rules of procedure for general meetings, rules of procedure for Board meetings and connected transactions regulations in order to maintain effective and independent operation; and
- (d) we have a designated office serving our Board (responsible for the day-to-day affairs of our Board), general office (responsible for administrative matters and the operation of our Group), financial department (responsible for financial cost management, contract cost department (responsible for and undertaking the control and management of costs relating to the total cost structure of the development projects), audit department (responsible for internal audit), engineering department (responsible for engineering project implementation and management), technology and quality management department (responsible for the research and development of quality technology and product), safety and environmental management department (responsible for safe production), material center and legal department, human resources department, corporate control department (responsible for comprehensive management of corporate). These departments are led and supervised by our own senior management team. Our senior management report to our Board and make decisions and form business plan and strategies in sales, marketing, finance, technology, research and development and human resources management independently from our Controlling Shareholders. In addition, we have our own internal financial procedures and prepare our own financial budget independently.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

We have entered into a number of transactions with the associates of our Controlling Shareholders. In particular, we have entered into transactions with Shuangliang Eco-Energy Group and Shuangliang Boiler for the purchase of heat services-related equipment and procurement of add-on services in relation to heat service-related equipment in the course of operation of our business during the Track Record Period. We also rented office premises from Jiangyin Hotel and Shuangliang Spandex, the respective terms of which shall expire 31 December 2025 and 31 December 2024. Jiangyin Hotel is a direct non-wholly owned subsidiary of Shuangliang Group Co., while Shuangliang Spandex is an indirect non-wholly owned subsidiary of Shuangliang Technology. In addition, during the Track Record Period, Jiangyin Hotel also provided accommodation, catering, reception and conference organising services to our Group.

Our Directors are of the view that the above transactions will not undermine the operational independence of our Group due to the following reasons:

- (a) given that for the three years ended 31 December 2020, 2021 and 2022, the aggregated transaction amounts for purchase of plant and equipment and other assets and services from the associates of our Controlling Shareholders were approximately RMB37.8 million, RMB15.8 million and RMB18.4 million, which accounted for approximately 3.8%, 1.8% and 1.8% of our total cost of purchases, respectively, the transaction amounts with the associates of our Controlling Shareholders;
- (b) the services we obtain from our Controlling Shareholders (including add-on services in relation to heat services-related equipment, renting of offices premises, subscription to accommodation, catering, reception and conference organising services) are supporting in nature;
- (c) we are not bound to and will not enter into further transactions with the associates of our Controlling Shareholders unless we agree to do so;
- (d) such equipment or assets purchased can be obtained or procured from Independent Third Parties on similar or comparable commercial terms; and
- (e) we have been engaged and will continue to be engaged in business relations with our suppliers and customers, which are independent from our Controlling Shareholders. Our Directors believe that these connected transactions will not give rise to any business dependence or reliance issue between our Group and our Controlling Shareholders or their respective associates, and that we will be able to find substitute suppliers for the supply of products and equipment necessary for the operation of our Group.

Based on the above, our Directors are of the view that there is no operational dependence by our Group on the Controlling Shareholders or their respective associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Financial independence

During the Track Record Period and up to the Latest Practicable Date, we have established our own finance department with a team of independent financial staff who are responsible for our financial management, accounting, reporting, funding and internal control functions, which are independent from our Controlling Shareholders.

We are capable of making financial decisions independently according to our own needs, and our Controlling Shareholders do not and will not interfere with our use of funds. We maintain and manage bank accounts independently and do not share any bank accounts with our Controlling Shareholders and/or their associates. We are registered independently for tax in accordance with applicable laws and we pay tax independently pursuant to applicable PRC tax laws and regulations, rather than on a combined basis with our Controlling Shareholders or other enterprises under their control.

Our Group’s bank borrowings guaranteed by Shuangliang Group Co., a connected person of our Company, as at 31 December 2020, 2021 and 2022 amounted to RMB286.1 million, RMB271.9 million and RMB378.1 million, respectively. The guarantees provided by Shuangliang Group Co. for our bank borrowings will be released upon the [REDACTED]. Our Group’s bank borrowings guaranteed by Shuangliang Technology, one of our Controlling Shareholders, as at 31 December 2020, 2021 and 2022 amounted to RMB90.0 million, RMB130.0 million and nil, respectively. As at the Latest Practicable Date, such bank borrowings guaranteed by Shuangliang Technology had been fully repaid. See notes 28 and 38(g) to the accountant’s report as set out in Appendix I to this document for details of the guarantees provided. Our Directors are of the view that we are capable of obtaining financing from external sources without reliance of the securities or collaterals provided by the Controlling Shareholders.

During the Track Record Period, our subsidiaries, namely Shuozhou Renewable Energy, Hulunbuir Shuangliang, Lanzhou Shuangliang and Gansu Smart Energy entered into certain financial lease agreements with Beijing Zhongchuang, a connected person of our Company, in respect of sales and lease-back or financial arrangements in relation to certain assets and equipment for operating heat service business of our Group (the “**Financial Lease Agreements**”). The purpose of entering into the Financial Lease Agreements was to improve the financial structure of our Group particularly our asset liability ratio, and to obtain financing for the operation of our Group. The interest rate under these Financial Lease Agreements ranged from 6.30% per annum to 6.90% per annum. The Financial Lease Agreements matured in December 2022.

Our Directors confirm that (i) the terms of the Financial Lease Agreements were determined by arm’s length negotiations between the respective parties with reference to the prevailing market rent at the time when the Financial Lease Agreements were entered into and on normal commercial terms which are fair and reasonable; and (ii) all borrowings and interest under the Financial Lease Agreements shall be fully repaid to Beijing Zhongchuang before [REDACTED], and the Financial Lease Agreements will cease before [REDACTED].

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As at 31 December 2020, 2021 and 2022, the outstanding balance of our borrowings from Beijing Zhongchuang amounted to approximately RMB556.5 million, RMB300.9 million and nil, which accounted for approximately 11.1%, 6.0% and nil of our total assets, respectively. We intend to use bank borrowings to repay the outstanding balance of the borrowings and interest under the Financial Lease Agreements.

During the Track Record Period, we also entered into a financing arrangement with Shuangliang Technology pursuant to which advances from Shuangliang Technology were made to us to facilitate our normal business development needs. As at 31 December 2019, such advances from Shuangliang Technology had been fully repaid. Save for the above financing arrangement, there was no other financing arrangement between our Group and the Controlling Shareholders and/or their associates during the Track Record Period and up to the Latest Practicable Date.

Our Directors believe that we have the ability to conduct our business independently from our Controlling Shareholders and/or their associates from a financial perspective and are able to maintain financial independence from our Controlling Shareholders due to the following reasons:

- (a) during the Track Record Period, instead of relying on the financial assistance provided by our Controlling Shareholders and/or their associates, our Group had diversified its sources of fund to borrowings from including banks and other financial institutions; as at 31 December 2020, 2021 and 2022, our Group had aggregate banking facilities of approximately RMB752.1 million, RMB760.4 million and RMB1,707.5 million, respectively; for details, see note 28 to the accountant's report as set out in Appendix I to this document;
- (b) we are able to obtain borrowing from Independent Third Parties on comparable terms, as well as pledging the equity interest of our subsidiaries for securing bank loans;
- (c) our working capital will be funded by our operating income; for the years ended 31 December 2020, 2021 and 2022, our Group had recorded total revenue of approximately RMB1,376.3 million, RMB1,290.6 million and RMB1,443.7 million, respectively;
- (d) our financial management department is capable of discharging the treasury functions for cash receipts and payments, accounting, reporting and internal control independently from our Controlling Shareholders and their associates.

Other than disclosed above, our Directors confirm that we do not intend to obtain any further borrowings, guarantees, pledges or mortgages from any of our Controlling Shareholders or their respective associates following the [REDACTED].

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Management independence

Our Board currently consists of nine Directors, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. Our supervisory committee consists of three members. Mr. Miao Wenbin (繆文彬先生), Mr. Ma Fulin (馬福林先生) and Ms. Xu Lijie (許麗潔女士), are the non-executive Directors and Mr. Ma Peilin (馬培林先生) is one of the members of our supervisory committee. Mr. Miao Wenbin (繆文彬先生), Mr. Ma Fulin (馬福林先生) and Mr. Ma Peilin (馬培林先生) are our Controlling Shareholders through their respective shareholdings in Shuangliang Technology and Jiangsu Lichuang, while Ms. Xu Lijie (許麗潔女士) is the cousin-in-law of Mr. Miao Wenbin (繆文彬先生) and the daughter-in-law of Mr. Miao Heida (繆黑大先生), one of our Controlling Shareholders.

Our Directors are of the view that our Group will be able to operate independently from our Controlling Shareholders upon the [REDACTED] for the following reasons:

- (a) except our three non-executive Directors, namely Mr. Miao Wenbin (繆文彬先生), Mr. Ma Fulin (馬福林先生) and Ms. Xu Lijie (許麗潔女士), none of our Directors will hold any directorship or senior management roles in the associated companies of our Controlling Shareholders upon the [REDACTED]. For details of roles of Mr. Miao Wenbin (繆文彬先生), Mr. Ma Fulin (馬福林先生) and Ms. Xu Lijie (許麗潔女士) in the associated companies of our Controlling Shareholders, see “Directors, supervisors and senior management – Board of Directors – Non-executive Directors” in this document. Mr. Miao Wenbin (繆文彬先生), Mr. Ma Fulin (馬福林先生) and Ms. Xu Lijie (許麗潔女士), being the non-executive Directors, are not involved in day-to-day management or affairs and operations of our businesses. In the event that either Mr. Miao Wenbin (繆文彬先生), Mr. Ma Fulin (馬福林先生) or Ms. Xu Lijie (許麗潔女士) is required to abstain from any Board meeting of our Company, or any matter which may give rise to a potential conflict of interest with our Controlling Shareholders and/or their associates, the remaining Directors will have sufficient expertise and experience to fully consider any of such matter;
- (b) our Directors believe that our Board has a balanced composition of executive Directors, non-executive Directors and independent non-executive Directors which ensures the independence of our Board in making decisions affecting our Company. Our three independent non-executive Directors account for one-third of our Board as required under the Listing Rules, and none of these three independent non-executive Directors have, and will have any ongoing role with the associated companies of our Controlling Shareholders and accordingly, our independent non-executive Directors can exercise independent judgement free from any conflict of interest;
- (c) we have adopted a number of corporate governance measures in order to manage any potential conflict of interests which may arise between our Group and our Controlling Shareholders as to safeguard the interests of our independent Shareholders, the details of which are set out in “– Corporate Governance Measures” below; and

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- (d) each of our Directors is aware of his/her fiduciary duties as a Director, which require, among other things, that he/she acts for the benefit and in the best interest of our Shareholders as a whole and does not allow any conflict between his/her duties as a Director and his/her personal interests to affect the performance of his/her duties as a Director.

Based on the above, our Directors believe that our management team is independent from our Controlling Shareholders, and that our Company can operate its business independently from our Controlling Shareholders, and that all of our Directors have relevant experience and ability to ensure proper and effective operation of our Board.

CORPORATE GOVERNANCE MEASURES

With a view to managing any potential conflict of interests arising between our Group and our Controlling Shareholders as well as safeguarding the interests of our independent Shareholders, we will adopt the following measures:

- (a) in the event that the proposal of connected transactions between our Group and other business or entity in which any Director or his respective associates had any interest is submitted to our Board for consideration, such interested Director shall not be counted in the quorum of the meeting, and shall abstain from voting on such matters. In such event, the other non-interested Directors, with the assistance of our senior management, will be responsible for making decisions for our Board. If necessary, our Company will engage external professionals such as auditors, valuers and other advisers to give advice;
- (b) each Director is aware of his/her fiduciary duties as a Director, which require, among other things, that he/she acts for the benefit of our Company and the Shareholders as a whole and does not allow any conflict of interests between his/her duties as a Director and his/her personal interests. If potential conflict of interest arises, the interested Director(s) will bring the matter to the independent non-executive Directors and shall not be present during the discussion of the relevant resolution in which the conflict of interest may arise and shall abstain from voting on such proposed resolution;
- (c) our Company will engage Guotai Junan Capital Limited as our compliance adviser who shall ensure that our Company is properly guided and advised as to compliance with the Listing Rules and any other applicable laws and regulations. In particular, any transactions between our Company and its connected persons shall be in compliance with the relevant requirements of Chapter 14A of the Listing Rules, including the announcement, annual reporting and independent shareholders' approval requirements (if applicable) under the Listing Rules;

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- (d) the independent non-executive Directors may engage an independent professional advisers in appropriate circumstances at the costs of our Company; and
- (e) our Directors are obliged under the Articles of Association to declare to our Board any potential conflict of interest with our Group at Board meetings. It is provided in the Articles of Association that a Director shall not vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or other proposal in which he/she or any of his/her associates is materially interested. Our Board (including the independent non-executive Directors) will monitor the potential conflict of interest of Directors and our Directors have to submit confirmations to our Board disclosing details of any interests in competing businesses in any interim or annual reports to be issued by our Company.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between each of Controlling Shareholders and their respective associates and our Group, and that the interests of our Shareholders, in particular, the minority Shareholders are protected.