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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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### OVERVIEW

In preparation for the Global Offering, our Company was established as a foreign-invested joint stock company with limited liability under the Company Law on August 25, 2010. BEIH and its wholly-owned subsidiary, BIEE, were two of our Promoters and directly owned 85.75% and 0.55%, respectively, of our registered share capital upon establishment. BEIH, a wholly-owned subsidiary of BSAMAC, is a large state-owned investment enterprise incorporated and existing under the laws of the PRC and is principally engaged in the investment in energy, real estate, infrastructure, high-tech and financial sectors in the PRC. BEIH will, immediately upon completion of the Global Offering and assuming no exercise of the Over-allotment Option, remain as our controlling shareholder, and will beneficially own, directly and through BIEE, approximately 57.57% of our equity interest.

### DELINEATION OF BUSINESS AND COMPETITION

#### Business Retained by BEIH

In preparation for the Global Offering, we undertook the Reorganization, through which, BEIH's clean energy generation business, which is our core business, was transferred to our Company by BEIH while the non-core businesses (including coal fired power, real estate, property management, equipment manufacturing, technology development, catering, tendering, fuel oil and storage) previously owned by us were spun off from our predecessor, Beijing Jingneng Technology and transferred to BEIH and its subsidiary and BDHG. Please see the section headed "Our History, Reorganization and Corporate Structure" for details of our Reorganization.

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The following clean energy business will continue to be retained and operated directly or indirectly by BEIH after the Global Offering. Save for the retained business (the “**Retained Business**”), there is no other clean energy business retained or operated by BEIH which will compete or is likely to compete with our core business. If the Retained Business held by BEIH were to be included in our Group or if we were to acquire the Retained Business which BEIH has agreed to acquire after the Track Record Period, our Group will still be able to satisfy the profit requirement contained in Rule 8.05(1)(a) of the Listing Rules. The Retained Business principally includes:

<b>Business Type</b>	<b>Name of the Company</b>	<b>BEIH's Interest</b>	<b>Key Features</b>	<b>Location</b>	<b>Installed Capacity / Estimated Capacity (in MW)</b>	<b>Status as at the Latest Practicable Date</b>
Gas-fired Power Business	Huaneng Beijing Thermal Power Co., Ltd. (華能北京熱電有限責任公司)	Beijing Jingneng International, a subsidiary of BEIH, holds a 34% equity interest in this company	Developing and operating gas-fired power plants and supplying heat energy	Beijing	923	Under construction
	Shenzhen Yuhu Power Co., Ltd. (深圳鈺湖電力有限公司) <sup>(1)</sup>	As at the Latest Practicable Date, BEIH proposed to acquire a 90% equity interest in this company	Developing and operating gas-fired power plants	Guangdong	360	In operation <sup>(2)</sup>

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Business Type	Name of the Company	BEIH's Interest	Key Features	Location	Installed Capacity / Estimated Capacity (in MW)	Status as at the Latest Practicable Date
HydroPower Business	Hanjiang Hydro	16%	Developing and operating hydro plants	Hubei	513	Under construction
	Sichuan Dachuan Power Co., Ltd. (四川大川電力有限公司)	As at the Latest Practicable Date, BEIH agreed to acquire a 100% equity interest in this company	Developing and operating hydro plants	Sichuan	119.1	In operation
	Sichuan Zhongneng Power Co., Ltd. (四川眾能電力有限公司)	As at the Latest Practicable Date, BEIH agreed to acquire a 100% equity interest in this company	Developing and operating hydro plants	Sichuan	60.39	In operation
Biomass Power Business	Guodian Tangyuan	40%	Developing and operating biomass power plants	Heilongjiang	30	In operation
	Shandong Jingneng Energy	60%	Developing and operating biomass power plants	Shandong	24	In operation

**Notes:**

- (1) Shenzhen Yuhu Power Co., Ltd. and its subsidiary have two pipeline gas-fired power projects for future development. However, since these two projects had not been approved by NDRC or its local counterparts as at the Latest Practicable Date and are subject to concrete development plans, they are not included in this table as Retained Business.
- (2) The generation systems of Shenzhen Yuhu Power Co., Ltd. ceased operation in April 2011 because they are in the process of being altered to gas-fired systems with low nitrogen burner. Shenzhen Yuhu Power Co., Ltd. expects that the power plants will resume operation in June 2011.

### **Gas-fired Power Business**

Beijing Jingneng International, a subsidiary of BEIH, holds, and will after the Global Offering continue to hold a 34% of the equity interest in Huaneng Beijing Thermal Power Co., Ltd. (華能北京熱電有限責任公司) with a capacity under construction of 923MW for its gas-fired power business. Huaneng Beijing Thermal Power Co., Ltd.'s gas-fired power plant is expected to be completed in late 2011 or early 2012. The Board was of the view that the

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relevant gas-fired power plant was still under construction and the profitability was uncertain. Therefore, BEIH's interest in this company was not transferred to us. Given that we have the option and the pre-emptive right to acquire BEIH's gas-fired power business pursuant to the Non-Competition Agreement (for details of which please see the paragraph headed "Non-Competition Agreement and Undertakings" below), we retain the flexibility to acquire BEIH's interest in this company from BEIH in the future if our Directors believe that such acquisition would be in the interest of our business and our Shareholders. The gas-fired power plant of Huaneng Beijing Thermal Power Co., Ltd. is still under construction and has not generated revenue. According to the annual report of Huaneng Power International, Inc. of 2010, the capital expenditure incurred for this gas-fired power plant as at December 31, 2010 was RMB272,639,359. In addition to its gas-fired power business, Huaneng Beijing Thermal Power Co., Ltd. has been engaged in coal-fired power business. Huaneng Beijing Thermal Power Co., Ltd. is a subsidiary of Huaneng Power International, Inc.

Our Directors believe that the gas-fired power plant of Huaneng Beijing Thermal Power Co., Ltd., which is still under construction, will not compete with the Company's business following completion of construction for the following reasons:

- the annual net power generation for each of our gas-fired power plants was determined by the NDRC Beijing Branch with reference to the total installed capacity of that plant as approved by the NDRC Beijing Branch prior to the construction; and
- it is usual for power plants in Beijing to supply heat energy to end users located within certain distance of the plant. Huaneng Beijing Thermal Power Co., Ltd. is located within the centralized heat energy supply network and, following completion, will supply heat energy to BDHG, one of the Group's direct customers. However, due to geographical distance between our plants and the plant to be operated by Huaneng Beijing Thermal Power Co., Ltd., the Group does not supply heat energy to the same end users as Huaneng Beijing Thermal Power Co., Ltd.

As at the Latest Practicable Date, BEIH proposed to acquire a 90% equity interest in Shenzhen Yuhu Power Co., Ltd. (深圳鈺湖電力有限公司) from Independent Third Parties. Shenzhen Yuhu Power Co., Ltd. owns two 9E-grade fuel oil-fired generation systems with an installed capacity of 360MW in total, which ceased operation in April 2011 and are in the process of being altered to gas-fired systems with low nitrogen burner. Shenzhen Yuhu Power Co., Ltd. expects that the power plants will resume operation in June 2011. In addition, Shenzhen Yuhu Power Co., Ltd. and its subsidiary have two pipeline gas-fired power projects for future development with 9F-grade generation systems with an expected capacity of 1,400MW in total. According to Shenzhen Yuhu Power Co., Ltd., as at the Latest Practicable Date, these two pipeline projects were still being planned and project approvals had not been obtained. Subject to concrete development plans and obtaining government approvals, BEIH intends to own 100% and 85%, respectively, of the equity interest in these two pipeline projects. The Directors were of the view that this company did not fit the acquisition criteria of the Company because of a wide range of reasons, including but not limited to, the estimated profitability, investment value and permits and approval requirements. The Company expected that the return of investment of these projects would not have exceeded 8%.

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As at December 31, 2008, 2009 and 2010, the net assets of Shenzhen Yuhu Power Co., Ltd. (unaudited) were RMB495.8 million, RMB302.8 million and RMB51.9 million, respectively.

For the years ended December 31, 2008, 2009 and 2010, the net profit/(loss) of Shenzhen Yuhu Power Co., Ltd. (unaudited) were RMB29.9 million, RMB(186.8) million and RMB(250.9) million, respectively.

As Shenzhen Yuhu Power Co., Ltd. can only sell electricity to its respective provincial grid company which is different from the Group's customers, the Directors consider that after the completion of the acquisition, BEIH's gas-fired power business will not compete with ours.

### ***Hydropower Business Retained by BEIH***

BEIH directly holds and will continue to hold, after the Global Offering, a 16% equity interest in Hanjiang Hydro. Hanjiang Hydro owns a hydropower plant with a capacity under construction of 513MW in Hubei Province. However, as of the Latest Practicable Date, none of our hydropower plants was located in Hubei Province. Hanjiang Hydro's power plant can only sell electricity to its respective provincial grid company which is different from the Company's customers. As the Group does not share any common customers with Hanjiang Hydro's power plant, our Directors are of the view that Hanjiang Hydro's hydropower business does not compete with ours. Hanjiang Hydro has not commenced business operation. During the Track Record Period, net assets of Hanjiang Hydro (unaudited) were RMB400 million, RMB1,100 million and RMB1,100 million, respectively.

BEIH entered into a framework equity transfer agreement dated January 6, 2011 with the individual shareholders (who are Independent Third Parties) of Sichuan Dachuan Power Co., Ltd. (四川大川電力有限公司) and Sichuan Zhongneng Power Co., Ltd. (四川眾能電力有限公司). Pursuant to this agreement, BEIH agreed to purchase and the individual shareholders agreed to sell the entire equity interest in each of Sichuan Dachuan Power Co., Ltd. and Sichuan Zhongneng Power Co., Ltd. As at the date of this agreement, these two power companies owned 14 operating hydropower plants, with an installed capacity of 179.49MW in total, in Sichuan Province where the Group also has hydropower business. The Directors were of the view that these plants did not fit the acquisition criteria of the Company because of a wide range of reasons, including but not limited to, low investment value due to the high purchase price and permits and approval requirements such as title certificates for land, project approval, water intake permit and environmental approval. The Company expected that the return of investment of these projects would not have exceeded 8%.

As at December 31, 2008, 2009 and 2010, the net assets of Sichuan Dachuan Power Co., Ltd. (unaudited) were RMB279.1 million, RMB331.9 million and RMB473.0 million, respectively. The net profit of Sichuan Dachuan Power Co., Ltd. (unaudited) in 2008, 2009 and 2010 were RMB88.8 million, RMB143.3 million and RMB113.5 million, respectively.

As at December 31, 2008, 2009 and 2010, the net assets of Sichuan Zhongneng Power Co., Ltd. (unaudited) were RMB257.2 million, RMB368.8 million and RMB381.0 million,

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respectively. The net profit of Sichuan Zhongneng Power Co., Ltd. (unaudited) in 2008, 2009 and 2010 were RMB58.3 million, RMB202.5 million and RMB96.6 million, respectively.

Due to the similar business nature and common customers, the Directors consider that after the completion of the acquisition, there may be potential competition between BEIH's hydropower business and that of the Group. However, the competition is not extreme for the following reasons:

- as advised by our PRC legal advisor, pursuant to the Administrative Measures regarding Full Off-take of Renewable Energy by Grid Companies 《電網企業全額收購可再生能源電量監管辦法》, the grid company of Sichuan Province is required to purchase the full amount of on-grid electricity generated by our hydropower plants within the coverage of its grid;
- the grid company of Sichuan Province sells electricity to other provinces as well as end users in Sichuan Province and therefore, there is no grid congestion issue in Sichuan Province due to excessive demand; and
- the PRC government regulates the on-grid tariff for hydropower plants.

### ***Biomass Business Retained by BEIH***

BEIH directly holds and will continue to hold, after the Global Offering, a 40% equity interest in Guodian Tangyuan and a 60% equity interest in Shandong Jingneng Energy. Guodian Tangyuan and Shandong Jingneng Energy are engaged in biomass power business. However, as of the Latest Practicable Date, none of our power plants was located in Heilongjiang Province or Shandong Province. Guodian Tangyuan and Shandong Jingneng Energy can only sell electricity to their respective provincial grid companies which are different from the Company's customers. As the Company does not share any common customers with Guodian Tangyuan and Shandong Jingneng Energy, our Directors are of the view that the business of Guodian Tangyuan and Shandong Jingneng Energy does not compete with ours.

During the Track Record Period, the net assets of Guodian Tangyuan (unaudited) were RMB46.6 million, RMB39.7 million and RMB5.4 million, respectively. Guodian Tangyuan's net loss in 2008, 2009 and 2010 (unaudited) were RMB2.2 million, RMB6.9 million and RMB34.3 million, respectively.

During the Track Record Period, the net assets/(liabilities) of Shandong Jingneng Energy were RMB43.9 million, RMB34.3 million and RMB(2.9) million, respectively. The net loss of Shandong Jingneng Energy during the same period were RMB6.1 million, RMB9.6 million and RMB37.2 million, respectively.

The losses related to Guodian Tangyuan and Shandong Jingneng Energy had been consolidated in the Group's accounts during the Track Record Period. The Company

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disposed its interests in Guodian Tangyuan and Shandong Jingneng Energy because these two companies were loss making.

### BEIH's Coal-fired Business

BEIH is also engaged in coal-fired power business, mainly through Beijing Jingneng International.

Beijing Jingneng International is directly owned as to 80% by BEIH and as to 20% by the Company.

#### ***Coal-fired Business Held by Beijing Jingneng International***

Beijing Jingneng International is engaged in coal-fired power business. The table below sets out the coal-fired power plants of Beijing Jingneng International as at December 31, 2010:

<u>Geographic Location</u>	<u>Number of Power Plants</u>	<u>Total Installed Capacity (MW)</u>
<b>Projects held by Subsidiaries</b>		
<b><i>In Operation</i></b>		
Inner Mongolia .....	1	1,200.00
<b><i>Under Construction</i></b>		
Ningxia .....	1	1,320.00
Inner Mongolia .....	1	1,200.00
<b>Projects held by Non-subsidiaries</b>		
<b><i>In Operation</i></b>		
Inner Mongolia .....	5	6,930.00
Beijing .....	2 <sup>(1)</sup>	1,725.00
Shanxi Province .....	1	2,520.00
Hebei Province .....	1	1,300.00
<b><i>Under Construction</i></b>		
Shanxi Province .....	1	600

*Note:*

(1) BEIH also has direct interest in one of the projects.



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### ***Other Coal-fired Business Held by BEIH***

In addition to the coal-fired business held by Beijing Jingneng International, the table below sets out the other coal-fired power plants held by BEIH as at December 31, 2010:

<u>Geographic Location</u>	<u>Number of Power Plants</u>	<u>Total Installed Capacity (MW)</u>
<b>Projects held by Subsidiaries</b>		
<b><i>In Operation</i></b>		
Beijing .....	1	131 <sup>(1)</sup>
Inner Mongolia .....	1	270
Shanxi .....	1	1,800
<b>Projects held by Non-subsidiaries</b>		
<b><i>In Operation</i></b>		
Inner Mongolia .....	2	1,980

*Note:*

(1) Including a 36 MW capacity for back-up generators which are not in operation unless under emergency.

Although BEIH and the Group have certain common customers, our directors believe that the competition between BEIH's coal-fired business and the clean energy business of the Group is not intense for the following reasons:

- (i) according to the Renewable Energy Law and Administrative Measures regarding Full Off-take of Renewable Energy by Grid Companies 《電網企業全額收購可再生能源電量監管辦法》, grid companies are required to provide grid connection support, and purchase the full amount of electricity generated from renewable energy projects that are located in the areas covered by the grid company. In addition, the PRC government regulates the on-grid tariff for wind farms; and
- (ii) the annual net power generation for each of our gas-fired power plants was determined by the NDRC Beijing Branch with reference to the total installed capacity of that plant as approved by the NDRC Beijing Branch prior to the construction and therefore sufficient demand is ensured after the gas-fired power plants commenced operation. In addition, most of the coal-fired power plants held by BEIH are located outside Beijing and do not share common customers with our gas-fired power plants.

For the years ended December 31, 2008, 2009 and 2010, the net assets of Beijing Jingneng International were approximately RMB8,645.8 million, RMB9,671.1 million and RMB9,023.2 million, respectively.

For the years ended December 31, 2008, 2009 and 2010, the net profit/(loss) of Beijing Jingneng International were approximately RMB(16.3) million, RMB576.7 million and RMB402.9 million, respectively.

### **DIRECTORS' COMPETING INTERESTS**

Other than certain directorships and/or positions held by some of our Directors in BEIH which is further discussed below, the Directors have confirmed that they did not have any



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interests in any business which directly or indirectly competes or is likely to compete with our business as at the Latest Practicable Date.

### NON-COMPETITION AGREEMENT AND UNDERTAKINGS

#### Non-Competition

We entered into the Non-Competition Agreement with BEIH on June 13, 2011, under which BEIH agreed not to, and to procure its subsidiaries (other than any listed subsidiary) not to, compete with us in our gas-fired power and heat energy generation, wind power and hydropower and other clean energy generation businesses (our “**Core Business**”) and granted to us options for new business opportunities, options for acquisitions, and pre-emptive rights.

BEIH has irrevocably undertaken in the Non-Competition Agreement that, other than the Retained Business, during the term of the Non-Competition Agreement, it will not, and will also procure its subsidiaries (other than any listed subsidiary) not to, in or outside of the PRC, alone or with any other entity, in any form, directly or indirectly, engage in, participate in or assist or support a third party to engage in or participate in any clean energy business that competes, or is likely to compete, directly or indirectly with our Core Business.

The foregoing restrictions do not apply to the holding of securities in a company that competes with our Core Business and whose securities are listed on any stock exchange, provided that BEIH and/or its subsidiaries do not hold or control in aggregate the voting rights in respect of 10% or more of the issued share capital of such company.

#### Options for New Business Opportunities

BEIH has undertaken in the Non-Competition Agreement that:

- (i) during the term of the Non-Competition Agreement, if BEIH becomes aware of a new clean energy business opportunity which competes, or may compete, directly or indirectly with our Core Business, BEIH will notify us in writing immediately and provide to us all information which is reasonably necessary for us to consider whether or not to engage in such business opportunity (“**Offer Notice**”). BEIH is also obliged to use its best efforts to procure that such opportunity is first offered to us on terms that are fair and reasonable. We are entitled to decide whether or not to take up such business opportunity within 30 days from receiving the Offer Notice, subject to compliance with the applicable requirements under the Listing Rules; and
- (ii) BEIH shall procure its subsidiaries (other than any listed subsidiary) to first offer to us any new clean energy business opportunity which competes, or may compete directly or indirectly with our Core Business.

If we decide not to take up the new business opportunity for any reason or do not respond to BEIH and/or its subsidiaries within 30 days from receiving the Offer Notice, BEIH or its subsidiaries may operate such new business opportunity at its discretion.

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Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to take up a new business opportunity referred to by BEIH and/or its subsidiaries. When BEIH and/or its subsidiaries deliver to us the Offer Notice, we will report to our independent non-executive Directors within seven days of receipt for their consideration before reverting to BEIH and/or its subsidiaries within the 30 days period from the date of receiving such Offer Notice. When considering whether or not to exercise the options for new business opportunities, the independent non-executive Directors will form their views based on a range of factors, including but not limited to, the power plants' natural resource condition, geological characteristics, construction and grid connection condition, estimated profitability, investment value and permits and approval requirements.

### Options for Acquisitions

In relation to:

- (i) the Retained Business; and/or
- (ii) any new clean energy business opportunity of BEIH referred to in the Non-Competition Agreement, which has been offered to, but has not been taken up by, the Company and has been retained by BEIH or any of its subsidiaries, which competes, or may lead to competition, directly or indirectly with our Core Business,

BEIH has undertaken to grant us the option which is exercisable at any time during the term of the Non-Competition Agreement, subject to applicable laws and regulations, to purchase at one or more times any equity interest, assets or other interests which form part/or all of the Retained Business or new business as described above, or to operate the Retained Business and/or new businesses as described above by way of, including but not limited to, management outsourcing, lease or subcontracting. However, if a third party has the pre-emptive rights in accordance with applicable laws and regulations and/or a prior legally binding document (including but not limited to articles of association and shareholders' agreement), our options for acquisitions shall be subject to such third party rights. In this case, BEIH will use its best efforts to procure the third party to waive its pre-emptive rights.

BEIH shall procure its subsidiaries (other than any listed subsidiary) to comply with the option granted to us by BEIH above.

The consideration shall be determined following negotiation between the parties under the fair and reasonable principle according to the valuation conducted by a third party professional valuer and the mechanism and procedure provided by the applicable laws and regulations.

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to exercise the options for acquisitions. When considering whether or not to exercise the option for acquisitions, the independent non-executive Directors will form their views based on a range of factors, including but not limited to, the power plants' natural resource condition, geological characteristics, construction and grid connection condition, estimated profitability, investment value and permits and approval requirements.

### **Pre-emptive Rights**

BEIH has undertaken that, during the term of the Non-Competition Agreement, if it intends to transfer, sell, lease or license or otherwise transfer or permit to use any of the following interests to a third party:

- (i) BEIH's Retained Business; and/or
- (ii) any new clean energy business opportunity of BEIH referred to in the Non-Competition Agreement, which has been offered to, but has not been taken up by, the Company and has been retained by BEIH or any of its subsidiaries, which competes, or may lead to competition, directly or indirectly with our Core Business.

BEIH shall notify us by written notice ("**Selling Notice**") in advance. The Selling Notice shall attach the terms of the transfer, sale, lease or license and any information which may be reasonably required by the Company to make a decision. We shall reply to BEIH within 30 days after receiving the Selling Notice from BEIH. BEIH has undertaken that until it receives the reply from the Company, it shall not notify any third party of the intention to transfer, sell, lease or license the business. If the Company decides not to exercise the pre-emptive rights or if the Company does not reply to BEIH within the agreed time period, BEIH is entitled to transfer, sell, lease or license the business to a third party pursuant to the terms stipulated in the Selling Notice.

BEIH shall procure its subsidiaries (other than any listed subsidiary) to comply with the above pre-emptive rights.

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to exercise the pre-emptive rights. When BEIH and/or its subsidiaries deliver to us the Selling Notice, we will report to our independent non-executive Directors within seven days of receipt for their consideration before reverting to BEIH and/or its subsidiaries within the 30 days period from the date of receiving such Selling Notice. When considering whether or not to exercise the pre-emptive rights, the independent non-executive Directors will form their views based on a range of factors, including but not limited to, the power plants' natural resource condition, geological characteristics, construction and grid connection condition, estimated profitability, investment value and permits and approval requirements.

### **BEIH's Further Undertaking**

BEIH has further undertaken that:

- (i) Upon the request of our independent non-executive Directors, it will provide all information necessary for our independent non-executive Directors to review BEIH and its subsidiaries' compliance with and enforcement of the Non-Competition Agreement;
- (ii) it agrees that we disclose the decision made by the independent non-executive Directors related to the compliance with and enforcement of the Non-Competition Agreement in our annual report, or by way of announcement; and

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- (iii) it will make a declaration to our Company and our independent non-executive Directors annually regarding its compliance with the Non-Competition Agreement for us to disclose in our annual report.

Our Company will also adopt the following procedures to make sure that the undertakings under the Non-Competition Agreement are observed:

- (i) we will provide to our independent non-executive Directors the Offer Notice and Selling Notice (as the case may be) on the new business opportunity referred to us by BEIH or pre-emptive rights within seven days of receipt;
- (ii) our independent non-executive Directors will report in our annual report (a) their findings on the compliance by BEIH of the Non-Competition Agreement and (b) any decision made pursuant to the options and preemptive right granted to the Company and the basis of such decision; and
- (iii) the Directors consider that the independent non-executive Directors have sufficient experience in assessing whether or not to take up the new business opportunities or exercise the pre-emptive rights. In any event, the independent non-executive Directors may appoint financial advisor or professional expert to provide advice, at the cost of the Company, in connection with the exercise or non-exercise of the option or pre-emptive right under the Non-Competition Agreement.

The Non-Competition Agreement will become effective upon Listing and remain in full force and be terminated upon the earlier of:

- (i) BEIH and its subsidiaries, directly and/or indirectly in aggregation, holding less than 30% of our total issued share capital; or
- (ii) our H Shares no longer being listed on the Stock Exchange.

Our PRC legal advisor is of the view that the Non-Competition Agreement does not violate the applicable PRC laws, and BEIH's undertakings pursuant to the Non-Competition Agreement are valid and binding obligations of BEIH under PRC law after the Non-Competition Agreement takes effect and may be enforced by us in the courts of the PRC by then.

Based on: (a) the undertaking by BEIH that it will give a priority support to our development of the Core Business, (b) the legally binding obligations of BEIH as set out in the Non-Competition Agreement and related grant of the options for new business opportunities and acquisitions and the pre-emptive rights, and (c) the information-sharing and other mechanisms in place as described above to monitor compliance by BEIH, the Directors are of the view that the Company has taken all appropriate and practicable steps to ensure compliance by BEIH with its obligations under the Non-Competition Agreement.

## INDEPENDENCE FROM BEIH

Having considered the following factors, our Directors are satisfied that we can conduct our business independently from BEIH and its associates after the Global Offering.

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### **Operational Independence**

We are in possession of all production and operating facilities and technology relating to our business. Currently, we engage in our core business independently, with the independent right to make operational decisions and implement such decisions. We have independent access to customers and suppliers and are not dependent on BEIH with respect to supplies for our business operations. We have sufficient capital, equipment and employees to operate our business independently from BEIH.

We have our own organizational structure with independent departments, each with specific areas of responsibility. We also maintain a set of comprehensive internal control procedures to facilitate the effective operation of our business. We have adopted protective measures to ensure the enforceability of the Non-Competition Agreement between the Company and BEIH. Please see the paragraph headed “Non-Competition Agreement and Undertakings” in this section for details. The Company has also adopted a set of corporate governance manuals, such as rules of the shareholders meeting, rules of the board meeting, rules of the supervisory board and Rules on the conduct of connected transactions, which are based on the relevant laws, rules and regulations.

The Group has entered into certain continuing connected transactions with BEIH pursuant to which BEIH and/or its associates may provide services to the Group. However, such services are readily available from Independent Third Parties. For instance, equipment maintenance service can be provided by a number of other independent suppliers, including the equipment manufacturers. In fact, maintenance for core machinery is provided by equipment manufacturers. BEIH and/or its associates only provide maintenance for non-core machinery. The consultancy and technical support service relating to operational safety can be provided by many other independent suppliers, such as power design institutes. For the operating services, we can employ in-house technicians who are not connected to BEIH. Moreover, the Directors believe there is a fully competitive market for such services. Thus, our Directors believe that the Company is able to find independent suppliers on similar terms at ease.

Based on the above, the Directors are of the view that the Company operates independently from BEIH.

### **Financial Independence**

We have our own finance department responsible for discharging the treasury, accounting, reporting, group credit and internal control functions of the Company independent from BEIH.

We will have settled all amounts due to BEIH of non-trade nature and released all guarantees provided to us by BEIH prior to the Listing.

The Directors are of the view that we are capable of obtaining financing from third parties without relying on any guarantee or security provided by BEIH or other connected persons. Therefore, we operate independently from BEIH from a financial perspective.

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### Management Independence

Upon listing, our board of Directors will consist of 9 directors, 5 of whom are not associated with BEIH. Of these 9 Directors, 3 are independent non-executive Directors and 5 are non-executive Directors. Set out below is a table summarizing the positions held by the Directors at our Company and BEIH.

<u>Name of Directors</u>	<u>Position with the Company</u>	<u>Position with BEIH as at the Latest Practicable Date</u>
LU Haijun (陸海軍) .....	Chairman and Non-executive Director	Chairman and director
GUO Mingxing (郭明星) .....	Non-executive Director	Director and general manager
XU Jingfu (徐京付) .....	Non-executive Director	Deputy general manager
LIU Guochen (劉國忱) .....	Non-executive Director	Deputy general manager

Apart from the above, each of the Company and BEIH is managed by different management personnel, and none of the other Directors or senior management holds any position or has any roles or responsibility in BEIH or its associates.

None of our independent non-executive Directors has any relationship with BEIH. Therefore, there are sufficient non-overlapping directors who are independent and have relevant experience to allow the proper functioning of the Board.

We believe that the Directors and senior management are able to perform their roles in the Company independently and the Company is capable of managing its business independently of BEIH after the Listing for the following reasons:

- the decision-making mechanism of the Board set out in the Articles of Association includes provisions to avoid conflicts of interest by providing, among other things, that in the event of conflict of interest, such as consideration of resolutions in relation to transactions with BEIH, the relevant Director(s) who are connected with BEIH shall abstain from voting and not be counted in the quorum. Further, when considering connected transactions, the independent non-executive Directors will review the relevant transactions;
- all of our Directors who hold positions in BEIH are non-executive Directors. As non-executive Directors, they are not involved in running the day-to-day business, but rather are primarily responsible for strategy and planning matters; the day-to-day operation of the Company is managed by our executive Director and senior management who are all independent of BEIH and are our full-time employees;
- none of the Directors or the senior management has any shareholding interest in BEIH;
- each of our Directors is aware of his or her fiduciary duties as a Director which requires, among others, that he or she acts for the benefit and in the best interests of us;

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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- we have appointed 3 independent non-executive Directors, comprising one-third of our Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of the Company and our Shareholders as a whole.

Based on the above, our Directors believe that the Company is capable of maintaining management independence from BEIH.